American Broadcasting Companies, Inc. Annual Report 1975

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Financial Highlights

Financial Highlights	1975	1974
Revenues	$1,064,648,000	$ 986,040,000
Net earnings	$ 17,096,000	$ 49,945,000
Earnings per common and common equivalent share	$ .99	$ 2.92
Dividends per share	$ .80	$ .80
Average common and common equivalent shares	17,235,000	17,129,000
Outstanding shares	17,289,000	17,137,000
Property and equipment, net	$ 166,556,000	$ 168,567,000
Total assets	$ 697,811,000	$ 621,368,000
Working capital	$ 322,656,000	$ 235,999,000
Current ratio	3.2	2.5
Long-term debt	$ 194,418,000	$ 105,705,000
Stockholders' equity	$ 338,882,000	$ 333,132,000
Stockholders' equity per outstanding share	$ 19.60	$ 19.44
Stockholders of record at end of year	16,945	17,568

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To Our Shareholders:

The year just passed was, financially, a very disappointing one for American Broadcasting Companies, Inc. After our record performance in 1974, our earnings in 1975 dropped to $17.1 million or $.99 a share despite an increase in revenues to a new record level of $1.06 billion.

During the year, we faced a need for prompt and major improvements in network television programming; for the restructuring of our recorded music company; and to end the drain on our earnings by the Wildlife Preserve in Largo, Maryland. These tasks were neither easy nor inexpensive, but they had to be undertaken. We did so, and because of our work in these areas, ABC began 1976 in a measurably stronger operational condition than it began the previous year.

The difficulties we confronted internally were compounded by the state of the American economy, which has not experienced a year as difficult as 1975 in more than a generation, a large factor in the decline of our earnings. Every division of ABC, regardless of its performance, felt either the drag of recession upon its sales, or the pressure of inflation upon its costs.

ABC Television has now recovered from the substantial audience decline of the last quarter of 1974, which affected sales of both the ABC Television Network and the ABC Owned Television Stations throughout 1975. Though network costs are still a major factor, particularly in an election and Olympic year, a strong network schedule and a robust advertising marketplace presage a much improved year for both network and stations.

ABC Radio had a record year in both sales and profits. The ABC Radio Network, the AM stations and the FM stations all reported gains, with the FM stations becoming profitable as a group for the first time.

ABC Records, after a year under new management, continues its planned change of direction. The refinement of its artist roster and improved controls give it a sounder base upon which to build. ABC Record and Tape Sales, our recorded music distribution arm, experienced cost pressures during the year, but completed the reorganization needed for its future operations. Word, Inc., our religious music and publishing company, also strengthened its operations.

ABC Farm Publications, buoyed by advertising gains and the sale of insurance, had an excellent year. The ABC Leisure Magazines, like most special-interest publications, showed lower results due to general economic conditions.

ABC Theatres' revenues rose, but cost pressures reduced operational profits to below 1974 levels. Among the ABC Scenic and Wildlife Attractions, Silver Springs and Weeki Wachee were solidly profitable, but the Historic Towne of Smithville posted a modest loss while being revamped to meet our operating standards. The Wildlife Preserve, after two years of losses, was written down to its estimated market value and will not be operated in the future by ABC.

The growth of ABC's operations in the past two years created correspondingly greater capital requirements. Accordingly, last summer we issued and sold $100 mil-

Mr. Goldenson (right), and Mr. Rule.

"The early indications are that 1976 will be a much stronger year for the economy and for our Company. The stage is well set for the year to come."

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lion in 25-year sinking fund debentures. The proceeds of this sale were used to repay funds drawn down under a previous revolving credit arrangement, to finance needed capital projects, and to increase our working capital to more desirable levels. In 1976, the bulk of our capital expenditures will be invested in our broadcasting operations. We do not expect that the Company will require new external financing in the foreseeable future.

We believe broadcasting has exceptional growth potential for the future, and that ABC will be best rewarded by devoting its primary efforts to that sector. Our results will reflect the progress we make in expanding our share of the broadcast marketplace. As this goal is achieved—and we have made considerable strides starting in the fourth quarter of 1975—the growth prospects of the industry will assume larger importance in our future.

We see undeniable signs that this growth will be considerable: the growing number of new advertisers entering the medium, the reluctance of existing advertisers to reduce their involvement even in recessionary times, and the expanding television share of the total advertising dollar.

We maintain our positive view of the recorded music, publishing, motion picture theatres and outdoor attractions businesses, which are all involved with the distribution of entertainment and information to mass audiences. Recorded music is still a growing industry, particularly overseas, and one in which we should be able to expand profitably. The growth potential of specialty magazine publishing remains strong. Our movie theatres are a profitable, cash-generating business, though its growth potential is somewhat more limited. And we feel that, with the proper concept and operation, all of our outdoor attractions also can be successful.

We will, therefore, continuously re-evaluate our leisure properties. We will foster their further development as long as they give promise of meeting the criteria we have established for our investments. We do not, however, currently plan significant further expansions.

In the pages that follow, you will find more detailed discussions of our operations and our financial results. The early indications are that 1976 will be a much stronger year for the economy and for our Company. We are grateful to all our employees and directors for the contributions they made in 1975, for we are confident they have set the stage well for the year to come.

Sincerely,

Leonard H Goldenson

Leonard H. Goldenson
Chairman of the Board

Elton H Rule

Elton H. Rule
President

March 1, 1976

Operating Review

Television

ABC Television comprises four operating entities. The ABC Television Network and the ABC Owned Television Stations are the operating, sales, distribution and broadcasting units, while ABC Entertainment and ABC Sports produce, license or acquire the programs utilized by the network.

In network television, September is a pivotal month. The fruits of a year's development of prime-time programming are unveiled then, and the course of the coming year's sales is set by the audience response. The 1975 fall schedule was by all measures one of the best in ABC's history. From the beginning of the season, ABC's audience levels were fully competitive with those of the other networks. And the mid-season schedule adjustments in January 1976 brought ABC to a milestone: for the first time ever, its prime-time audience levels led both other networks for eight consecutive weeks, as this report went to press.

Overall, after 26 weeks of the 1975-76 season, ABC's prime-time audience rating (percentage of homes owning television sets) was 18.7, while its share of audience (percentage of homes actually using their televisions sets) was 30.7. This represented an improvement of 13 percent over the ratings of the previous year. The network's sales performance throughout 1976 should consequently be much improved.

These gains stemmed from the practical application of three fundamental commitments—to the young adult audience (18 to 49 years old) most sought by advertisers; to regular series programming as the foundation of a more durable television schedule; and to the most intensive program development effort in the industry, particularly in terms of the search for new entertainment forms and for new creative and performing talents.

The revised schedule was built on a core of established programs from the prior year, ranging from "Streets of San Francisco" and "The Six Million Dollar Man" to "NFL Monday Night Football." The accentuation of the role of Fonzie made "Happy Days," already a popular series, into one of the most watched shows on the air. "Baretta" and "Barney Miller" strengthened this core in January 1975. Of the new fall programs, "Welcome Back, Kotter" and "Starsky and Hutch" rapidly established themselves. Early in 1976, six completely different programs covering the full range of entertainment were added—"Bert D'Angelo/ Superstar," a contemporary detective drama, and "The Bionic Woman," a fantasy adventure, drawing on characters well received in other ABC programs. "Almost Anything Goes" is a lighthearted sporting spectacle brought back on a regular basis after positive response as a summer program; "Laverne and Shirley" is the new comedy hit of the season; "Donny and Marie" brings two fresh faces to a promising comedy-variety hour; and "Rich Man, Poor Man" is ABC Entertainment's most ambitious undertaking of the season—a 12-hour dramatic adaptation of Irwin Shaw's novel.

Movies and specials also played an important role throughout the year. Though ABC is relying less on theatrical motion pictures, major attractions of this genre continue to be extremely valuable additions to a schedule. "Jeremiah Johnson" and "The Sound of Music," aired early in 1976, were among the most watched movies ever on television, while "Serpico," "The Great Gatsby" and "Walking Tall" performed strongly in 1975.

"Early 1976 brought ABC to a milestone: for the first time ever, its prime-time audience levels led both other networks for eight consecutive weeks."

In movies made specifically for television, ABC has shifted its emphasis from 90-minute productions to two-hour (and often longer) movies, a form more adaptable to creative and production quality. In 1975 "A Moon for the Misbegotten," "Love Among the Ruins," "I Will Fight No More Forever" and "Death Be Not Proud" were all memorable examples of the adaption of superior drama to the television medium.

Two longer productions deserve special mention—"Eleanor and Franklin" and "Rich Man, Poor Man." The critical and popular triumph of these productions clearly opens to the television screen many masterpieces of literature, biography and history once thought too lengthy for production in any medium.

As in so many years past, ABC Sports was preeminent in 1975. Its showcase, "ABC's Wide World of Sports," in its 15th year, was again the most successful of any regular television sports program. Reflecting their widespread popularity, the formats of "The Superstars" and "Pro Bowlers Tour" were expanded, while ABC's contract for NCAA football was renewed for 1976 and 1977, making the 11th and 12th consecutive years for NCAA football on ABC. "NFL Monday Night Football" enjoyed its highest delivery of homes in its six year history in 1975. Major special events ranged from the Sugar Bowl football game to the Indianapolis "500" auto race to the new World Series of Women's Tennis.

But in many ways 1975 was merely a prologue for 1976, the most ambitious year by any network television sports organization, with more than 500 hours of programming scheduled. The presentation of the Winter Olympic Games from Innsbruck was an immense production and technical achievement that drew unprecedented audiences in the face of first-run entertainment programming competition. Coverage of The Olympic Games in Montreal will be an even more imposing undertaking, and public interest in the summer games historically runs even higher than in the winter competition. Though Olympic coverage is both difficult and costly, it remains a prestigious and profitable accomplishment for the network.

In addition, ABC will begin in 1976 coverage of Major League Baseball, including the All-Star Game, American and National League Championships, and Monday Night baseball. In 1977 the World Series comes to ABC. ABC coverage of the Kentucky Derby began in 1975, reaching a record Derby audience, and the Preakness will follow in 1977.

ABC's entry into early morning network programming with "AM America" failed to generate sufficient audience response. As a result, the show was replaced with a new format late in 1975, entitled "Good Morning, America," which took a broader approach to the presentation of information. The initial reaction to the new format has been promising.

In the same fashion, ABC's late-night programming has been better received since it was restructured from a "horizontal" (same show every night) to a "vertical" concept using a different program each night, some original, some with proven audience records, and compatible where possible with the prime-time programs preceding it.

The network's daytime schedule, like its prime-time counterpart, began the year at a lower level as a result of the intense three-

In the control room during production of an ABC daytime drama.

"Based on its results, ours is the most successful group of owned television stations."

network competition in this arena. By the end of the year, improvement in audience levels had become apparent, particularly in the key audience of women 18 to 49. "All My Children" was, as in years past, the network's most successful daytime program. Two serial dramas were added to the schedule—"Ryan's Hope" and "Edge of Night." The latter, brought to ABC after many years on another network, found new strength in its new late-afternoon time period. The critical morning lead-off position in the schedule was fortified with the introduction of the prime-time hit, "Happy Days."

In children's programming, ABC's entertainment vehicles combined information and positive social values with entertainment in a variety of formats. "Schoolhouse Rock" segments were devoted largely to historical and civic themes, and several announcements on nutrition were added to the weekend schedule. Seven new "Afterschool Specials" were created for a total of 13; they are shown at a rate of approximately two per month during the school year.

As a result of the realistic treatment of adult themes on television in recent years, both the industry and the public have felt a growing concern as to how best to safeguard the interests of younger viewers. As a result, a "family viewing" policy calling for use of programs suitable for viewing by the entire family during early evening hours was adopted and went into effect in September 1975. Though initially a subject of some controversy, the policy appears to be effective. Public polls have endorsed the policy, and at ABC, mail objecting to program content has fallen by half. The new programs introduced specifically for the early evening time periods involved have been generally successful.

Currently, the ABC Television Network's prospects are strong. The necessary base of solid series programming has been built. Additionally, the Olympic Games, the elections and conventions, the Bicentennial, all the major awards programs (Oscars, Emmys, Tonys) and a variety of other specials and special events combine to give the ABC Television Network the opportunity to enjoy its best ratings year.

For the longer term, ABC must face the pressure of prime-time programming costs that are rising at a rate more rapid than has been the case in the past. The cost of the rights to sports events also has escalated with competition from other networks. The use of videotape rather than film for many entertainment programs will help control the increases.

But these cost pressures are outweighed by the potential inherent in an advertising medium that, despite its past growth, has historically been undervalued in relation to other media. As the ability of advertisers to assess the effectiveness of the medium has risen in recent years, demand for the medium has risen too. Thus, television's share of the total advertising dollar increases steadily. Though the medium is not immune to downturns in the economy, television has tended to enter each succeeding recession later, emerge from it earlier and feel its effects less severely. The entry of new advertisers—insurance and retail are two leading examples—the demonstrated reluctance of established advertisers to forego television advertising, regardless of economic circumstance, provide further impetus for the medium's future growth.

The sun glints off the KGO-TV tower in San Francisco.

"A gradual transition began toward the use of electronic newsgathering using videotape, rather than film, as the principal news reporting medium."

The future of the medium obviously affects not only the network, but also the ABC Owned Television Stations. These stations, WABC-TV in New York, KABC-TV in Los Angeles, WLS-TV in Chicago, WXYZ-TV in Detroit and KGO-TV in San Francisco, operate in markets having 25 percent of the nation's population.

The revenue performance of local television stations can be correlated to three general factors—the general advertising marketplace, the strength of the network with which they are affiliated, and the strength of their local news programs. Advertising placed by local advertisers—particularly retailers—was again in 1975 the fastest growing segment of the television market.

However, a decline of the ABC Television Network's audience levels in 1975 was in large measure responsible for the owned stations' lessened profitability during the year. Nevertheless, they continued to be the most successful group of owned television stations. The network's striking recovery and the resurgence of the television advertising market have begun to improve the stations' results in 1976.

The stations' outlook is best measured by fall 1975 ratings. As a group, the stations were either first or tied for first in both early and late news programs in both 1975 and 1974. In overall audience throughout the day, the influence of the network's recovery was seen in the stations' climb from third place in 1974 to a tie for first in 1975.

Stations, however, do not sell only total audience. Many advertisers seek primarily an audience of women 18 to 49, and in this key demographic area, the stations ranked first in early news, late news and entire day in 1975, promising excellent sales performance in the current year.

The development of lightweight cameras known as "minicams" and related technology which enables a news team to broadcast live on short notice from remote locations, has had a profound effect on television news. Each of the owned stations has one of these "electronic newsgathering" units in operation, and will add a second during 1976. The division plans to have half of each station's reporting teams so equipped by June 1977. This is one of the capital investments in broadcasting ABC will make in the coming year.

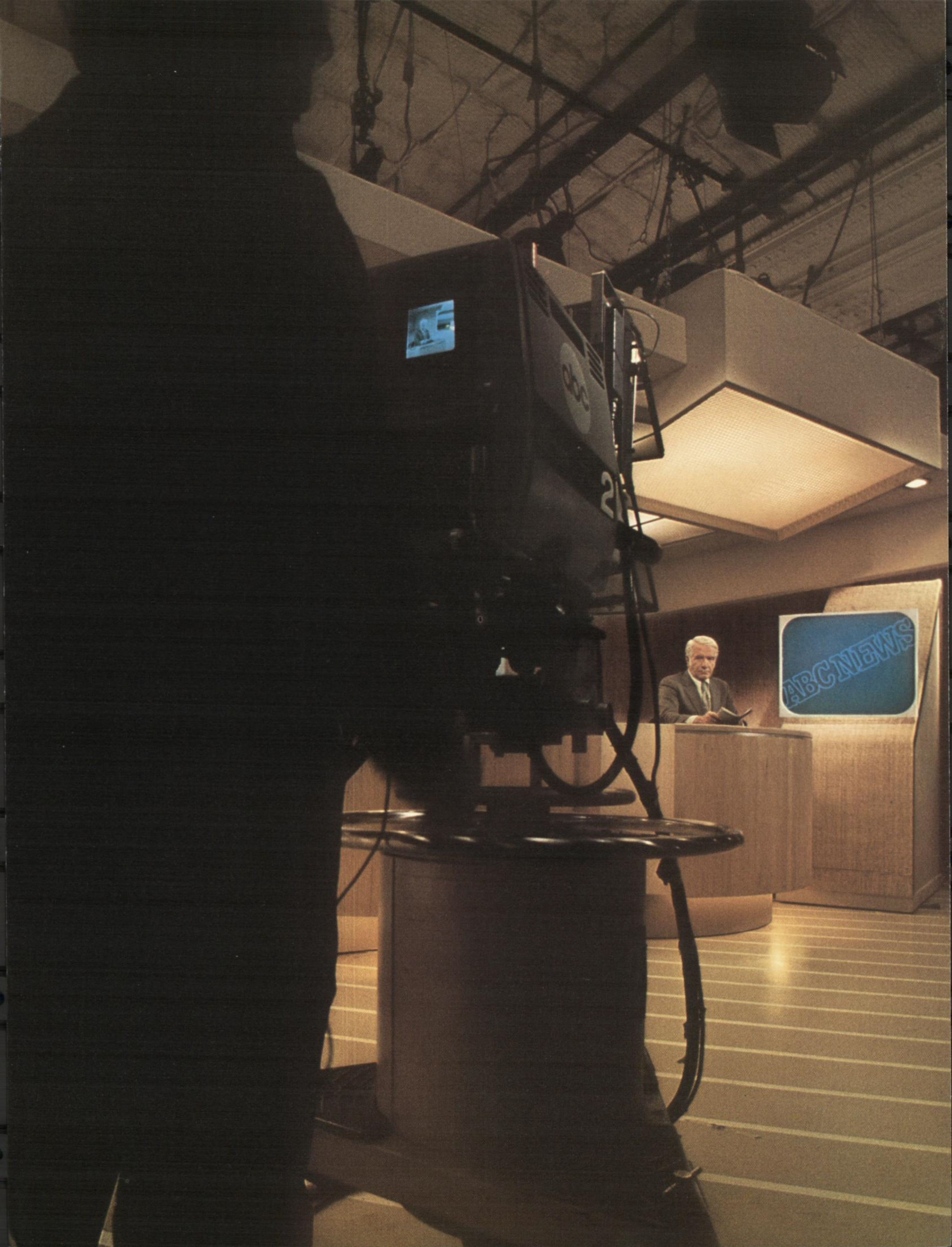
In addition to network programs and local news, each of the stations carries entertainment and information programs obtained from other sources (game shows and nature-oriented series remain very successful in these areas) and produces a considerable volume of its own programming.

Among the programs that should be singled out in this area are two weekly children's series, "Hotel Gigglesnort" on WLS-TV and "Hot Fudge" on WXYZ-TV, specials on "Women in Sports" on WABC-TV, "Murderer One, Two, Three" on KABC-TV, and "Two Sides of the Bridge" on KGO-TV, a Friday night hour talk show called "Graffiti" on WLS-TV and Los Angeles Rams professional pre-season football on KABC-TV.

ABC News provides the news programming for the ABC Radio and Television Networks, and makes news programming available on the owned and affiliated television and radio stations.

In September, the format of the ABC Evening News was revised, with Harry Reasoner assuming sole anchor duties and Howard K. Smith becoming a regular com-

On the set of the "ABC News with Harry Reasoner."


abc
ABC NEWS

"ABC Radio had a record year in terms of both revenues and profits."

mentator. Electronic newsgathering techniques came to the fore in 1975, beginning the gradual transition to the use of this videotape medium, rather than film, as the principal news reporting medium. A new weekend news broadcast, the "ABC Saturday News" with Ted Koppel, was added to the schedule.

ABC News teams presented special reports on such stories as the fall of South Vietnam; the attack on the American ship Mayaguez; the assassination attempts on President Ford; the Watergate conspiracy trials; the Patty Hearst arrest and trial; and, most especially, the landmark rendezvous in space of the American and Russian astronauts.

The "Closeup" series of news documentaries, in its second year, cemented its reputation for exceptional reporting with a dozen studies as diverse as land use, the legal profession, the Internal Revenue Service, weekend athletes and other subjects. The number of "Closeups" will be cut to seven in 1976 because of the demands of an election year and will return to 12 in 1977.

In its 16th year, "Issues and Answers" maintained its aggressive pursuit of world figures in the news. Other regular ABC News programs of note included "Make A Wish," "Directions" and "Americans All."

ABC Radio News produces more than 100 news broadcasts daily for the use of the four ABC radio networks—American Contemporary, American Information, American Entertainment and American FM, each with their own style and news requirements. As in years past, this news service was the core of the programming supplied to affiliated radio stations.

During the year, ABC News and Independent Television News of Great Britain entered into an exclusive agreement whereby the news coverage of each was made available to the other. This relationship is an important step in broadening the worldwide coverage of both newsgathering organizations.

Radio

ABC Radio is composed of four operating units. The ABC Radio Network supplies news, sports and feature programs to more than 1,500 radio stations across the country. ABC Owned AM Stations operates radio stations in six cities—New York, Los Angeles, Chicago, Detroit, San Francisco and Houston. ABC Owned FM Stations operates separately programmed stations in the same cities. ABC-FM Spot Sales represents the ABC Owned FM Stations plus 29 other radio stations to national advertisers in major markets.

In terms of both revenues and profits, 1975 was a record year for ABC Radio. This performance, to which the major operating units contributed, stemmed in large measure from four inter-related factors—the continuing growth of the radio industry; the resounding strength of ABC's audience appeal; the special efforts of ABC Radio to identify and market that appeal in ways directly responsive to the needs of the advertising community; and cost control programs to maximize profits derived from the increased revenues.

The ABC Radio Network has quadrupled its billings since 1968 and now commands the lion's share of all radio network advertising dollars. This growth sprang from ABC's unique four-network concept, the presentation of four different program services staggered throughout the

WABC Radio personality Dan Ingram reaches for a commercial cassette.


WABC

"ABC Records moved away from concentration on singles to a broader approach emphasizing album product."

broadcast hour and day so that affiliated stations can use the one best suited to their own format.

Its popularity has proved so durable that eight years after introduction, the four network services—American Information, American Contemporary, American Entertainment and American FM—are still growing in terms of audience levels, advertising revenues and earnings. In addition to news, popular features range from Howard Cosell's "Speaking of Sports" to the unique commentary of "Paul Harvey News," which is carried by more than 600 stations.

The six ABC Owned AM Stations are the most listened-to radio group in the country (though many competing groups have seven stations). At the end of 1975, these stations had an unduplicated cumulative audience of more than 10.5 million listeners. WABC in New York had the largest audience of any station in the country (more than four million) while WLS in Chicago was second (with 3.5 million). Both have popular music formats.

KABC in Los Angeles and KGO in San Francisco, whose formats are geared to news and talk programming, each achieved record revenue and earnings levels in 1975. WXYZ in Detroit, and KXYZ in Houston under new management, are positioned for growth in 1976.

Recognizing the growth potential of FM radio, ABC determined early to commit the investment necessary to develop its FM stations. Repayment of that investment began in 1975 when the group as a whole became profitable. The six ABC Owned FM Stations became the most listened-to FM radio station group in the country, with an unduplicated cumulative audience of more than four million listeners.

All of the ABC FM's have formats of popular contemporary music-in-stereo targeted to the highly desirable young adult audience. KLOS in Los Angeles and WRIF in Detroit lead the FM stations in their markets in audience, while WPLJ in New York and WDAI in Chicago were also key contributors to the group's profit picture. KAUM in Houston and KSFX in San Francisco introduced new "disco-rock" formats which generated both audience and revenue improvement.

ABC-FM Spot Sales continued to offer spot radio advertisers specialized representation of stereo rock radio stations.

ABC Radio pioneered the development of retail radio advertising. In 1975, the success of this effort played a major role in its revenue performance. ABC Radio also played a leading role in encouraging the development of audience measurements based on "areas of dominant influence," as opposed to more narrowly defined market definitions. This concept, which defines radio audiences in a manner more consistent with television and magazines, facilitates evaluation and utilization of these audiences by national advertisers. The ADI concept was first employed nationally in 1975 and should have a significant effect in 1976.

Recorded Music

ABC's activities in the field of recorded music involve three divisions. ABC Records produces and markets records both domestically and overseas. ABC Record and Tape Sales is a wholesale distributor of recorded music and communications equipment to retail outlets. Word, Inc. pro-

Record mastering at ABC Records' Los Angeles facilities.

"The high regard in which their subscribers hold these magazines made it possible to market several non-editorial services."

duces and markets both records and books of a religious or inspirational nature.

ABC Records began 1975 by changing its direction and operating philosophy.

In keeping with the temper of the entire recorded music industry, ABC Records moved away from concentration on singles to a broader approach encompassing album product and stressing the catalog of prior recordings.

In the process of implementing this re-direction, the number of artists under contract was reduced by close to one half. The number of records released was reduced by more than half, and the ratio of new singles to new albums was evenly balanced. Steps were taken to tighten operating procedures.

Restructuring and reevaluation called for the writing down of catalog inventory with marginal sales potential. This occurred during a year whose first half was characterized by an exceptionally high rate of product returns throughout the industry. The combination of these two factors was a major cause of the record company's loss for the year.

There were, however, during the year positive signs that the company's artist roster is beginning to possess the requisite appeal to the record-buying public. Ten of the company's releases were certified as "gold records," an industry yardstick representing sales of a million singles or half a million albums.

Three of the gold records belonged to Freddy Fender, the latest of the ABC artists to "cross over" from country music to popularity on the general bestseller list. Other gold artists were Three Dog Night, Steely Dan, Joe Walsh, B. J. Thomas, Bobby "Blue" Bland, B. B. King, and newly acquired artists Crosby & Nash and Isaac Hayes.

Several other artists of demonstrated appeal have re-signed with the company, among them Rufus, The Pointer Sisters, The Crusaders and Poco. These artists, as well as Bobby Vinton, Jimmy Buffet, Roy Clark, and The Dramatics, help give the ABC labels a strong position in rock, country and western, rhythm and blues and the other aspects of contemporary music.

Though the domestic recorded music industry recovered strongly in the second half of 1975, the industry's major long-term growth lies overseas. To participate in that growth, ABC in 1975 signed extensive licensing arrangements with major companies throughout the world.

ABC Record and Tape Sales supplies recorded music to about 8,000 retail outlets and department stores. Though the division's revenues rose during the year, its profits were reduced by two external circumstances.

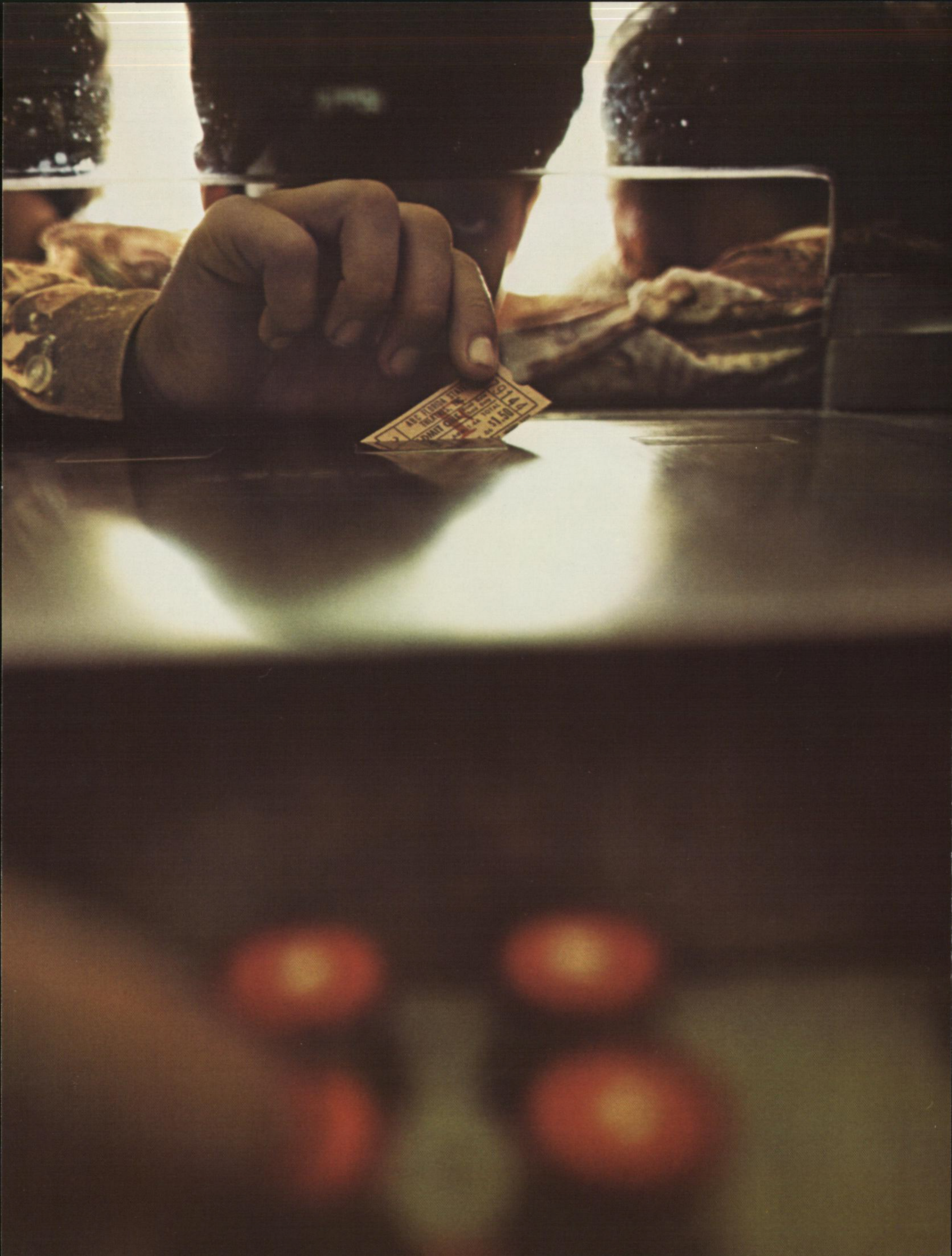
The first was the state of the general economy. With the recession at its worst in the first half of the year, retailers returned unprecedented amounts of product to suppliers. In the second half, however, recovery brought industry returns back within their historical range.

The second was the bankruptcy proceedings involving W.T. Grant Co., a major customer, and the consequent need to reserve against loss as a result of those proceedings. ABC Record and Tape Sales is a secured creditor against assets of Grant.

Mid-State Distributing Co., a wholesale electronic communications equipment distributor, had an excellent year, largely as a result of the boom in sales of citizens' band radio equipment. ABC Retail Music Stores

A new issue of Modern Photography rolls off the presses.


MODERN PHOTOGRAPHY
You Don't Have to Blast Viewers Out of Their Seats With Brilliant Color for Good Scenics
Develop Your Own Way of Seeing With Our Photo Course
All Developing Tanks Look Alike, But Some Are Good and Some...
Auto-Focusing Cameras: Are They Ready Now? Ask Honeywell!


9144
TOTAL
$1.50

"Our policy has been to phase out older theatres in center-city areas and to replace them with suburban facilities, often with multiple screens."

opened three new units during the year, bringing to 10 the number of its "Wide World of Music" stores.

With the relocation of ABC Record and Tape Sales headquarters to New Jersey, to be completed in 1976, the capital investment and operational reorganization of the division needed for profitable operation will be concluded.

Word, Inc. improved its performance in its first full year as an ABC division. Word's record operations were somewhat hampered by the industry-wide problem of high returns, but artists like Tom Netherton, Andrae Crouch and the Disciples and a new discovery named Evie performed very well, and established artists George Beverly Shea and Carol Lawrence joined the label. Religion-oriented books, both inspirational and scholarly, ranged from W. Stanley Mooneyham's "What Do You Say to a Hungry World?" to Jerry Clower's "Ain't God Good!" Books by star athletes Roger Staubach and Kyle Rote, Jr. were also strong sellers.

Publishing

ABC publishes five magazines and a variety of books and satellite materials through two divisions. ABC Farm Publications comprises "Wallaces Farmer," "Prairie Farmer" and "Wisconsin Agriculturist" magazines and Wallace-Homestead Co., which publishes books on antiques and collectibles. ABC Leisure Magazines publishes "High Fidelity" and "Modern Photography" magazines and related publications in these special-interest areas.

ABC Farm Publications had an excellent year. The health of these magazines relates less to the national economy than to the farm sector in their four-state area of Wisconsin, Iowa, Illinois and Indiana. Both advertising rates and advertising lineage rose for the magazines during the year, leading to gains in both revenues and profits.

The high regard in which their subscribers hold these magazines has made it possible for the division to successfully market several non-editorial services. The sale of health, accident and life insurance played a role in the division's improved results in 1975, as did group travel programs for subscribers.

Like many special-interest publications, the magazines of ABC Leisure Magazines felt keenly the pressure of inflation upon their costs, particularly paper and postage, and as a result the division's earnings slipped somewhat despite revenue gains.

However, circulation gains reaffirmed public support for these magazines—and for such specialized additional publications as "The Musical America Annual Directory of the Performing Arts" and "Photo Equipment Buying Guide." ABC expects earnings from this division to grow in the more positive current economic climate.

Theatres

ABC Theatres has interests in 277 motion picture theatres. They are located in 11 Southern states: Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Arkansas, Louisiana and Texas.

The movie theatre business today tends to vary less with the economy than with the quality of the movies being made. ABC Theatres' revenue gains during the year reflected in large measure the release of "Jaws," which is already the biggest box office attraction in motion picture history.

A youngster purchases ticket to film at one of ABC's Florida theatres.

"Silver Springs and Weeki Wachee recovered strongly in both revenues and profits in 1975."

Other movies drawing well at ABC Theatres were "The Towering Inferno," "Young Frankenstein," "The Godfather, Part II," and "Benji." Blockbuster movies are few and far between, and competition for them has driven the cost of film rentals up sharply. This factor, together with higher operating costs, reduced ABC Theatres' operational profits below 1974 levels despite the revenue gains.

Given the ongoing shift in population from urban centers to suburbs, and the accompanying changes in life-style, ABC's policy has been to phase out older theatres in center-city areas, and to replace them with a comparable number of suburban facilities, located primarily in shopping centers and frequently containing more than one screen, or auditorium, per facility.

During 1975, ABC disposed of 23 single-screen theatres. Second screens were added to six existing theatres, one new single-screen theatre and six new twin-screen theatres were built and, at the end of the year, the Company's first three-screen facility was opened. ABC plans to continue this selective upgrading of its theatre portfolio.

Outdoor Attractions

ABC Scenic and Wildlife Attractions operates three outdoor recreational facilities: Silver Springs and Weeki Wachee in Florida, and The Historic Towne of Smithville near Atlantic City, New Jersey.

Silver Springs, near Ocala, and Weeki Wachee, north of Tampa, had strong years in 1975. These parks are affected primarily by the level of Florida tourism, which recovered strongly from the temporary decline of travel caused by the 1973-74 energy crisis. Both revenues and profits improved for these parks in 1975.

During the year, the two Florida parks also completed the largest portion of their capital improvement program. With the conclusion of this program in 1976 and the continued strength of tourism, the parks should further improve their results.

The Historic Towne of Smithville was not profitable in 1975 in its first year of operation as an ABC division. The loss resulted principally from the need to impose new operating procedures and controls on a facility whose marketing appeal remains fundamentally sound. The facilities of Smithville have proven appeal, and the surrounding lands offer potential for further development. A return to profitability is projected for 1976.

After two seasons of unacceptable attendance and revenues, the Company wrote down the assets of the Wildlife Preserve in Largo, Maryland, to the estimated market value of the land, facilities and equipment. ABC has no plans to operate a park at the Largo site in the future.

Other Businesses

The ABC Entertainment Center in Century City, Los Angeles, reduced its loss as additional commercial space was rented. Profitability must await higher occupancy in nearby Century City buildings, which are at present filling slowly.

ABC Merchandising had a successful year in its two principal areas of activity—the licensing of ABC News documentaries, children's and sports films to distributors in the educational marketplace, and the licensing of ABC names and characters for consumer goods usage.

"Break one-nine, this is Nutcracker looking for a 10-13 in the truck-em -up lanes north on the Greenstamp, my 20 is going through 97." "C'mon one time, Nutcracker, you've got the Blue Goose. There's an 18-wheeler stalled by 101, traffic's wall to wall." "Thanks, good buddy, 10-4 and 73's."

For the benefit of the layman, that apparent gibberish was an ABC executive asking traffic conditions in the northbound truck lanes of the New Jersey Turnpike outside New Brunswick, learning from an unknown fellow traveler that a disabled tractor-trailer has caused a traffic jam four miles ahead, thanking his informant and wishing him a good day. Such language crackles through the airwaves with increasing frequency these days through the medium of citizens' band, or CB, radio—short-range two-way radios operating through 23 channels federally allocated for the purpose. Truck drivers first adopted CB, and imparted their own special slang to the medium. The current public fascination with truckers as folk heroes helped spread the popularity of CB radios (which retail for $80 to $400 apiece), throughout the general population. One beneficiary of the boom is Mid-State Distributing Company, a unit of ABC Record and Tape Sales, which distributes consumer and industrial electronic products. CB, until recently a small part of Mid-State's business, now accounts for more than a third of its revenues and is still a growing business.

One Answer to a Problem

We want our children to know how to read. Many of them have no particular motivation to learn how to read. Many of them do, however, enjoy watching television. From that reasoning was born six years ago Philadelphia's Television Reading Program, in which students in Grades 2 through 12 use scripts and videotapes of television series episodes as regular parts of their language arts training. In many cases, students in the program for a year gained a year and a half in reading proficiency, and as word got around 3,000 other school systems joined the program. The Philadelphia officials asked ABC Entertainment what could be done with television specials. Trials with "The Missiles of October" and "I Will Fight No More Forever" paved the way for a massive undertaking—with the participation of IBM and the *Philadelphia Inquirer,* more than a million scripts of "Eleanor and Franklin" were distributed through the schools, through a supplement to the newspaper, and in other ways. Viewing of the programs was exceptionally high in the area. Based on the level of classroom enthusiasm and parental letters and calls, the school system calls the project a "fantastic success."

Lock Hands, Plant Elbows

The rules are pretty simple, as sporting events go. Two competitors face each other across a level surface. They grasp each other's right hand, plant their elbows and push until one contestant forces the other's arm to the table or ground, a process which can end in a second or drag on for agonizing minutes. This is the sport called wrist wrestling. It's been known for years in schoolyards and bars (and to readers of Hemingway's "The Old Man and the Sea"), but it made little impression on other sports fans until the cameras of "ABC's Wide World of Sports" made their way to Petaluma, California, to record the 1975 national championships. The ABC Sports people are always on the lookout for little-known competitions that will intrigue the "Wide-World" audience; some 83 sports have so found their way onto the program. Some have faded from view, but wrist wrestling caught on. It is still one of the program's most popular events.

A tip for novices: If you also grasp your opponent's left hand at table level, you'll prevent him from getting extra leverage to force your right arm down.

"No More Kings"

....They planted corn, and oh they built their houses one by one, and bit by bit they worked until the colonies were done. They looked around, yeah, up and down and someone said, "Hooray. If the King could only see us now, he would be proud of us today."

They knew that now they'd run their own land, but George the III still vowed he'd rule them to the end. "Anything I say, do it my way, now. Anything I say, do it my way. Don't you get to feeling independent, cause I'm gonna force you to obey."

He taxed their property. He didn't give them any choice. And back in England, he didn't give them any voice. That's called taxation without representation, and it's not fair. But when the colonies complained, the King said, "I don't care."

"He even has the nerve to tax our cup of tea. To put it kindly, King, we really don't agree. Gotta show you how it feels, we're gonna dump this tea and turn this harbor into the biggest cup of tea in history...."

(A few verses from "No More Kings," an animated, musical bit of history which appeared as one of the "Schoolhouse Rock" segments in the ABC Television Network's weekend morning schedule.)

When It Hurts, Don't Play

The weekend athlete needs help, not just from the outside but from within as well. Much more research is needed in sports medicine, one of medicine's newest specialties. Data on who is injured and how is just beginning to get started. As for the enemy within, too often we are searching for the fountain of youth on feet of clay. As Pogo said, "We have met the enemy and he is us." A wise word of medical advice: When it hurts, don't play. Pain is the language of the body, telling us when it's had enough. And remember, you don't play sports to get into shape, you get into shape to play sports.

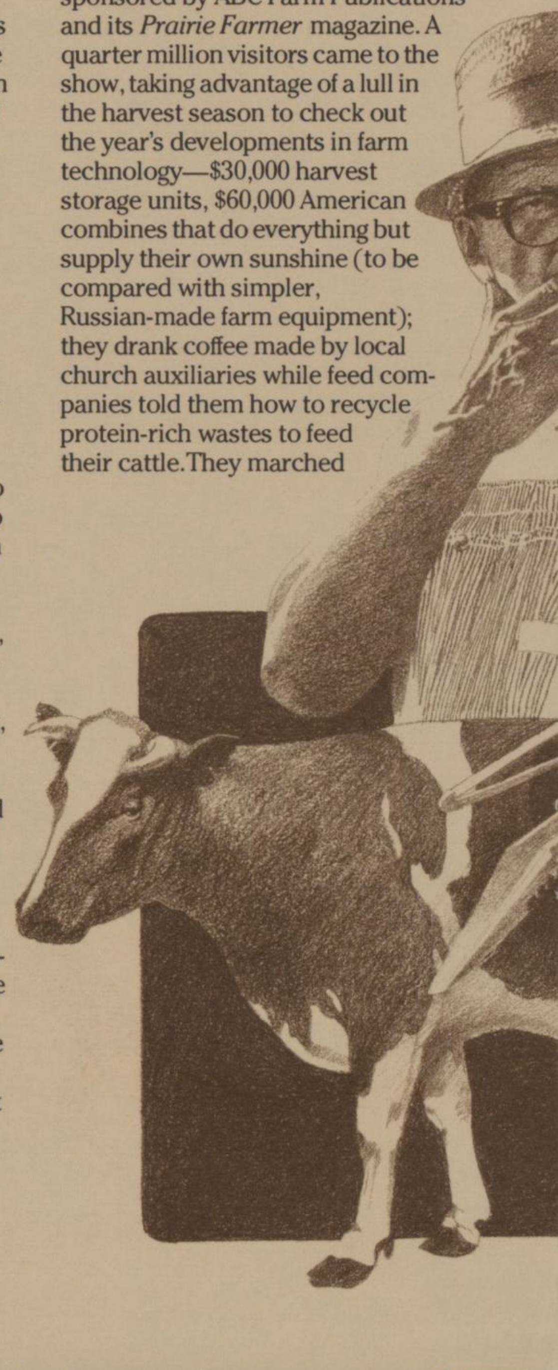
(From ABC News' "Closeup: Weekend Athletes")

A New Life

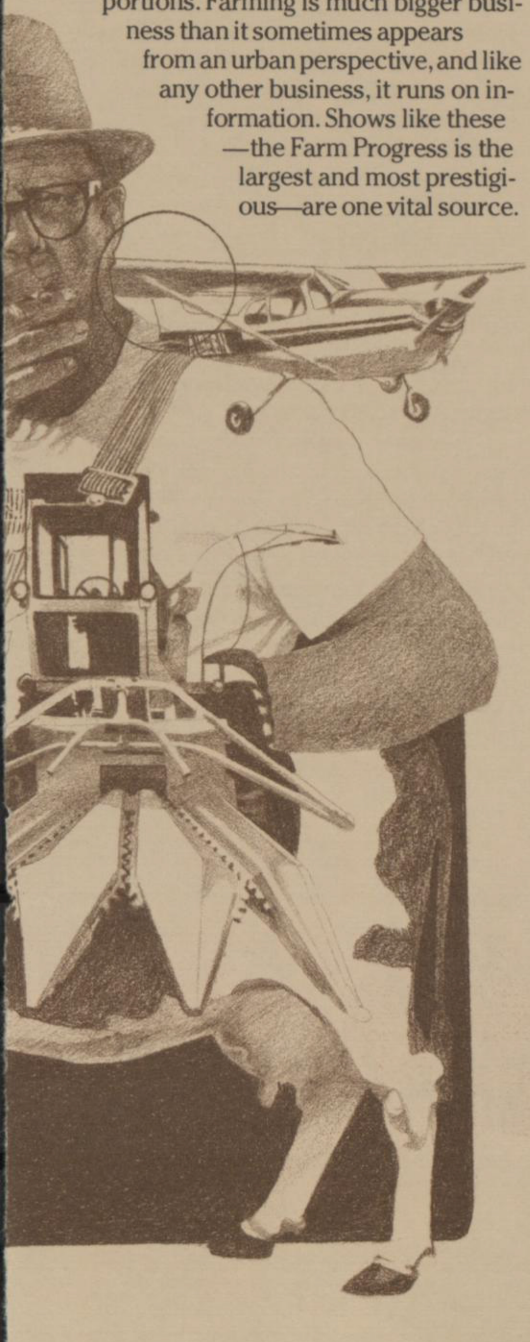
With the fall of the South Vietnamese government early in 1975, 30 Vietnamese employees of the ABC News Bureau in Saigon faced an excruciating decision—to remain in their shattered country or try to begin a new life in a strange and unknown country. Seventeen of them (with their families, a total of 108 refugees) chose to leave, and were evacuated by air to Manila, then to Guam and finally to Camp Pendleton, California, helped at each point by ABC employees. But to stay in this country, they needed jobs. ABC hired nine, as engineers, secretaries, cameramen and stagehands; affiliated stations volunteered to take on five; and three were sponsored by other groups. ABC provided housing and necessities to get them established. The ensuing months have not been easy; homesickness has been constant, and family stress has been considerable. But all are settled in permanent homes, the children are all enrolled in school, and all the wage earners are reported doing well at their jobs. They appear to have a good chance at establishing the new life they sought.

Farming as Big Business

For a couple of mornings last October, the busiest airport in the Midwest wasn't Chicago's O'Hare; it was a cornfield on Jim Wilrett's farm outside Malta, Illinois, where more than 500 planes a day bounced to a landing at the annual Farm Progress Show sponsored by ABC Farm Publications and its *Prairie Farmer* magazine. A quarter million visitors came to the show, taking advantage of a lull in the harvest season to check out the year's developments in farm technology—$30,000 harvest storage units, $60,000 American combines that do everything but supply their own sunshine (to be compared with simpler, Russian-made farm equipment); they drank coffee made by local church auxiliaries while feed companies told them how to recycle protein-rich wastes to feed their cattle. They marched

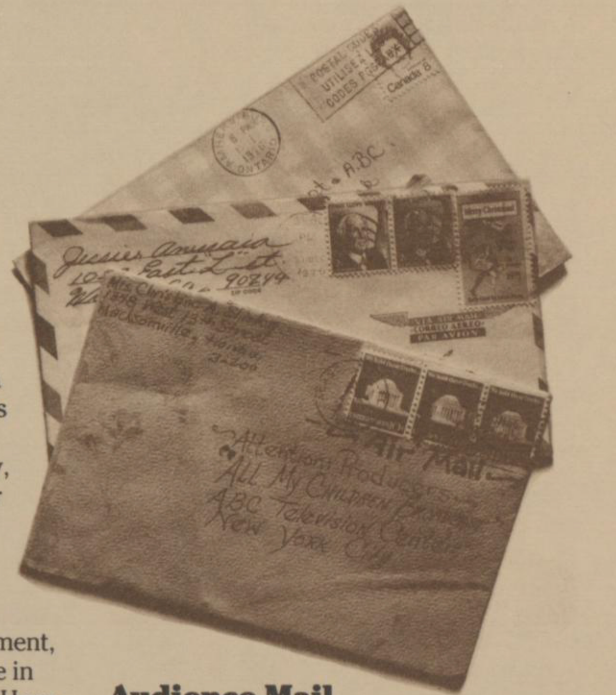


through fields to see how each supplier's grains had grown, and how each manufacturer's equipment harvested it, and then returned to view the grain's ultimate consumer: cattle gaining a modest three pounds a day on computer-prescribed portions. Farming is much bigger business than it sometimes appears from an urban perspective, and like any other business, it runs on information. Shows like these —the Farm Progress is the largest and most prestigious—are one vital source.



"The American Spirit"

"Part rebellion, part civil war, part world conflict, the American Revolution—more than seven long years of blood and bitterness—gave birth to a nation and direction to a people. ABC's corporate structure, as a total communications and entertainment entity, affords a unique opportunity to foster the Bicentennial message throughout the United States. All the areas of ABC will participate, using all our resources to enable us to speak to many different publics." That commitment, enunciated a year ago, is taking shape in many ways throughout the Company. Here is a very small sampling: ABC Theatres are offering a remarkable film called "These Original Thirteen States" to school groups. A mustering of militia and the Patrick Henry-George Washington "speakout" against the Crown will be reenacted at the Historic Towne of Smithville. Word, Inc. has prepared a book and record combination called "Our Lives, Our Fortunes, Our Sacred Honor," in which Paul Harvey recounts the sacrifices made by signers of the Declaration of Independence. *Modern Photography* magazine is running a series on how to photograph historical sites of the revolution. Bicentennial vignettes produced by KABC in Los Angeles focus on contemporary problems, and look back in history to see what became of a similar problem. WXYZ-TV offers a series called "Spirit of Detroit," tying local themes to their broader national impact. "Make a Wish," the network children's program, has made mini-documentaries on such Americana as the bison and the gold rush. And "Eleanor and Franklin," "The Missiles of October" and "Collision Course" all brought historical recreations to prime-time television. These and scores of other projects are gathered under the theme "The American Spirit."



Audience Mail

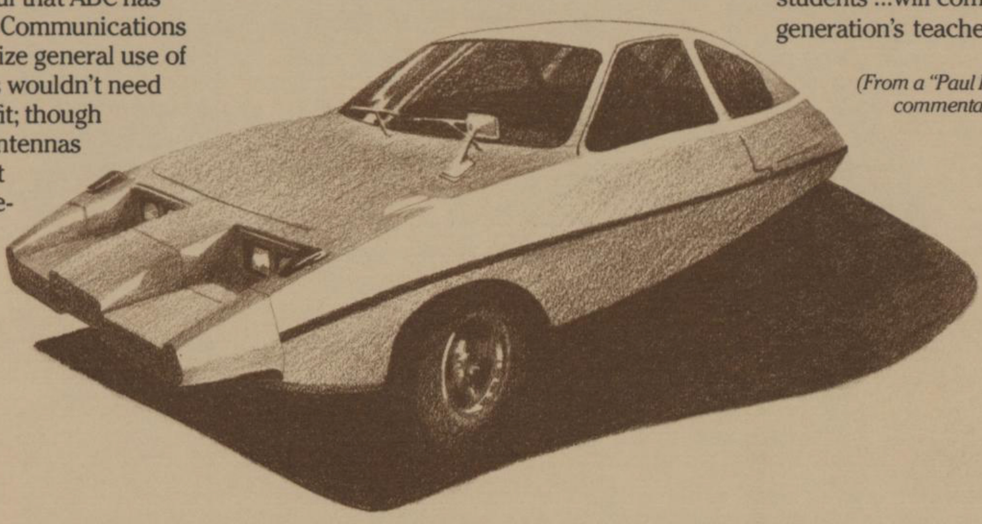
It is one thing to watch a television program. It is quite another to like or dislike it. That is one reason ABC carefully scrutinizes (and answers) the hundreds of letters that pour in each day from around the country. Letter writers are by no means a representative group, in terms of the overall population, but they do give ABC a sense of where feeling is strongest. Thus, the following excerpts from the mail report on the 1974-75 season: Letter-writing viewers were most enthusiastic about "The Missiles of October" and "Love Among the Ruins" among ABC's entertainment specials, "Barney Miller" and "Baretta" among ongoing series, and "The Many Worlds of Leo Rosten" from the "Directions" series. "The Hot L Baltimore," since canceled, drew the most negative mail. On general topics, letters opposing the use of X- and R-rated movies were the most prevalent. (ABC doesn't show movies whose television versions don't earn GP or G ratings.) Mail from the current season isn't yet conclusive, but since the inception of the "family viewing" policy, letters on various aspects of violence and permissiveness have dropped by about 50 percent from the year before.

No More Ghosts

Television reception has improved a good deal over the years, but there's one problem that still haunts many viewers—"ghosts," or second images, reflected off a hilltop or building in the area. At last, a new transmission technique called circular polarization has been developed that can eliminate the ghosts (and improve television reception in other ways as well). The technique, which has long been used to upgrade FM radio reception, has been in use on a test basis at WLS-TV, ABC's owned station in Chicago, for two years. The tests have been so successful that ABC has petitioned the Federal Communications Commission to authorize general use of the technique. Viewers wouldn't need new antennas to benefit; though circular polarization antennas would provide the best picture, signal improvement would be apparent even with the familiar "rabbit ears."

Too Good to Be True

A two-seat, three-wheeled automobile that could get 70 miles to the gallon and hit a brick wall at 50 miles an hour without major damage, for a mere $1,969? It was the Dale automobile, and if it sounded too good to be true—it was. At first, news organizations all over the country were fascinated by the Dale, and the car's "manufacturer" took in $3 million in three months from investors and would-be buyers. But it all sounded a little odd to an investigative team from KABC-TV, Los Angeles, and when a salesman was shot in the manufacturer's office, the KABC-TV crew went to work. First, they learned a vice president of the manufacturer was wanted for grand theft involving his company's office furniture. Then a cameraman successfully bought a purchase option that California regulators had forbidden the company to sell, and cameras recorded company executives scurrying about with their faces hidden. From that point on, it was all downhill for the Dale, which it turned out didn't even run. Its "manufacturer" was put out of business and, in the end, KABC-TV revealed that the "mother of five" who was its president was actually a father of five wanted for counterfeiting and bail jumping. He's awaiting trial.



One View of a Problem

"Today's young people—statistically—are taller, handsomer, healthier, smarter and more capable than any generation which preceded theirs.

Except they can't read or write.

A million American teenagers, 12 to 17, cannot read or write at a fourth-grade level. A million American youngsters are illiterate. They learn a little bit about a lot of things in school—but they are not learning reading, writing and 'rithmetic.

So they get to college. They want to be journalists. And they can't even spell....

At the University of Illinois, a freshman writes, quote, I could of done better in finals if I wouldn't of broke my leg at exam time. End-quote. Only 8 per cent of this year's Illinois freshmen passed the writing proficiency entrance test.

Universities should not have to teach students to read and write....

The situation is worsening, not improving. High school graduates taking college entrance exams have scored lower in language skills every year for 12 years—and this year's decline was the steepest yet.

Maybe teachers have been spending too much time striking when they should have been teaching.

And lest you run out of things to worry about...Out of this generation's students ...will come the next generation's teachers."

(From a "Paul Harvey News" commentary on the ABC Radio Network.)

The pages that follow provide some detail of ABC's performance in 1975 and help to describe its financial position at the end of that year. Because the financial statements may seem complex, the few introductory comments provided below are offered as an aid in understanding the significant components of the change in the Company's financial condition in 1975.

Balance Sheets

The Consolidated Balance Sheets summarize what ABC owns and what it owes. The difference between the two represents one monetary measurement of what the Company is worth to its shareholders. Another measurement of monetary worth, of course, is the market value of ABC's common stock traded on the New York Stock Exchange.

The balance sheets are as of specific dates and therefore represent the Company's financial position at a designated moment in time. Other accompanying financial statements cover the reporting of the results of activity over a designated period.

There are many ratios and measurements used in the financial analysis of a company's financial soundness. One important measurement is found in the balance sheet and is the relationship of its current assets and its current liabilities. This measurement is known as the current ratio and provides as a single amount the number of times a company's current liabilities are covered by its current assets. ABC's current ratio increased to 3.2 in 1975 from 2.5 in 1974. This means that ABC's liquidity or, stated another way, its capability to liquidate its current debts using its own current assets, increased in that period. The increase resulted in large measure from the application of the proceeds from the sale in 1975 of $100 million of debentures. Approximately $30 million of the net proceeds were used to repay borrowings by ABC under a revolving credit agreement and the balance of the net proceeds was added to the general corporate funds of ABC to be available for various corporate purposes, including the acquisition of and the improvement to fixed assets (principally broadcasting equipment and expansion and renovation of theatres and scenic attractions) and for working capital.

Because of the timing difference in the receipt of the net proceeds from the sale of $100 million of debentures as well as cash received during the normal course of business and the expenditure of cash in the business, temporary excess cash balances exist. These excess funds are invested in short-term marketable securities in order to earn interest on the cash until invested in assets to be used in the business. Idle cash generates no income and temporary investment in liquid, safe instruments provides a sound alternative use to otherwise idle cash.

The amounts shown for television program rights, production costs and advances

rose in 1975 over 1974 partly reflecting higher program costs and partly as a result of a greater emphasis on future program development. Future program development is considered an investment of the Company's financial resources which should benefit ABC in the future. Without this investment ABC would lose its competitive capability in the television programming marketplace.

The inventory of merchandise and supplies can be described by explaining the two main elements. Merchandise consists of product on hand which is expected to be sold in the normal course of business during 1976. The main components of merchandise inventory are phonograph records, musical tapes, and books, both hard cover and soft cover. The inventory of supplies consists of those materials required to carry on the day to day operations of the Company. During 1975, a portion of ABC's recorded music inventory became obsolete and was written down to its estimated realizable value and, in addition, a more conservative basis of inventory valuation was adopted. These two actions considered necessary by management contributed to the decrease in the amounts indicated on the accompanying balance sheets for inventories of merchandise and supplies.

The amounts for property and equipment, which include land, buildings, operating equipment and leasehold and leasehold improvements, declined primarily because of the writedown of the assets of the Wildlife Preserve which were reflected in this category on the balance sheet in 1974. Additionally, the residual value of the Preserve's assets is classified as Other Assets in 1975. The change in classification is necessary since the Preserve's assets are no longer used in the active conduct of the business as of the end of the year 1975, but were used in active operations in 1974. Since ABC no longer intends to use these assets in conducting its business, it is appropriate to classify these assets elsewhere on the balance sheet rather than continue to reflect them as assets employed in the business.

The amount for operating equipment increased in 1975, generally because of the modernization of ABC broadcasting facilities. ABC, in order to maintain its competitive position, must invest some of its resources in modern equipment. In addition, equipment wears out through use and must be replaced, or because of changes in operating requirements, continued use of some equipment is no longer considered economical. As a result, this obsolete equipment is usually disposed of.

Long-term liabilities increased in 1975 because of the sale during the year of $100 million of debentures. The funds were obtained from the public and these debentures are traded on the New York Stock Exchange.

Stockholders' equity, indicated above as one measurement of the Company's worth to its shareholders, rose $5.8 million during the year. The details of this increase are presented in the Statements of Consolidated Retained Earnings and the Notes to the Consolidated Financial Statements which are discussed below.

Statements of Earnings

The accompanying Statements of Consolidated Earnings report in summary form the results of the activities of the Company in monetary terms for each of the years indicated in the headings of the statements. Reasons for the changes in amounts are found in the accompanying Management's Discussion and Analysis of the Summary of Operations.

For additional information regarding revenues and earnings over a several year period which can be used for comparative purposes, the Consolidated Summary of Operations and Lines of Business statements should be read. These summaries also expand the information relating to certain amounts in the Statements of Consolidated Earnings. In the Lines of Business summary, revenues from continuing operations and earnings from continuing operations before income taxes and extraordinary items are shown for the five fiscal years ended January 3, 1976. The amounts shown are by function and demonstrates how each function contributes to ABC's degree of success during each of those five years.

Statements of Retained Earnings

The Statements of Consolidated Retained Earnings present the amount of net earnings which ABC was able to retain for future growth and development. It also describes the elements which caused the net increase in Consolidated Retained Earnings briefly discussed above.

Statements of Changes in Financial Position

The Statements of Changes in Consolidated Financial Position summarize ABC's financing and investing activity, including the extent to which the Company has generated funds from operations for each of the periods indicated in the statements. The statements also serve to complete the presentation of changes in financial position during the periods reported. These statements complement the information contained in the Consolidated Balance Sheets, Statements of Consolidated Earnings and Statements of Consolidated Retained Earnings. As can be seen from the accompanying Statements of Changes in Financial Position, the major reason for the net increase in ABC's working capital in 1975 over 1974 resulted from the receipt of proceeds of $100 million from debentures sold in 1975.

Notes to Consolidated Financial Statements

The Notes to the Consolidated Financial Statements should be read in order to gain a more detailed understanding of certain of the information contained within the Consolidated Financial Statements.

The summary of significant accounting policies, which is the first Note, presents a synopsis of major accounting policies followed by the Company on a consistent basis throughout the periods presented by the Consolidated Financial Statements.

You will notice that references are made to these Notes within the Consolidated Financial Statements. These references help to direct the reader to other information in order to present all the information necessary for a clearer understanding of financial data.

Financial Review and Management's Discussion and Analysis of the Summary of Operations

Revenues from Continuing Operations

Revenues from operations aggregated $1,064,648,000 in 1975 compared to $986,040,000 in 1974. The increase of $78,608,000 arose principally from increased revenues in broadcasting, theatre, publishing, and recorded music distribution operations.

Retained Earnings and Net Earnings Per Share

Retained earnings amounted to $211,657,000 at year end 1975 ($12.24 per common share outstanding) compared with $209,363,000 at the end of 1974 ($12.22 per common share outstanding). Cash dividends of $13,777,000 and $13,478,000 were paid in 1975 and 1974, respectively.

Net earnings per common and common equivalent share decreased to $.99 from $2.92 in 1974 reflecting disappointing results of the record and wildlife preserve operations and softness in television advertising. Writedown of the assets of the Wildlife Preserve to estimated market value resulted in a reduction of net earnings amounting to $.31 per share.

Stockholders' Equity and Long-Term Debt

Stockholders' equity increased from $333,132,000 in 1974 to $338,882,000 in 1975 or from $19.44 to $19.60 per common share outstanding.

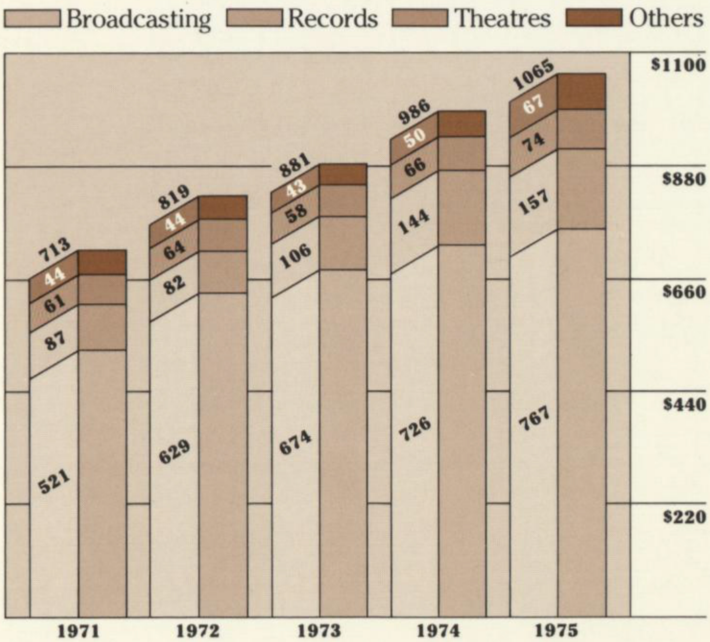
Long-term debt, including current maturities, amounted to $201,451,000 in 1975 compared with $113,075,000 a year earlier. In July 1975, the Company sold 9.35% sinking fund debentures in the amount of $100,000,000. Earlier in the year the Company entered into a revolving credit agreement and borrowed $30,000,000. On August 1, the $30,000,000 was repaid from the proceeds of the 9.35% debentures and the agreement was terminated.

Capital Expenditures and Depreciation

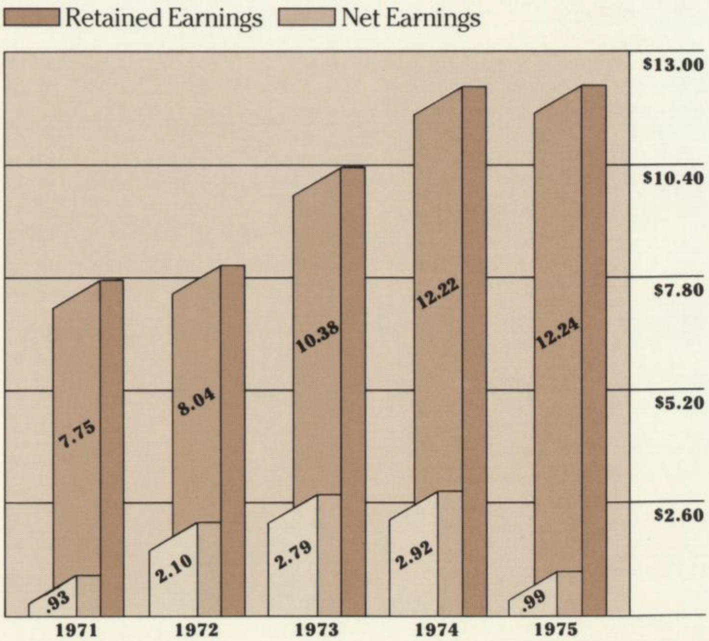
Capital expenditures for property and equipment amounted to $31,219,000 in 1975. In 1974, similar expenditures amounted to $51,940,000 including $9,300,000 for property and equipment of acquired businesses.

Depreciation expense amounted to $15,764,000 and $12,439,000 in 1975 and 1974, respectively.

Revenues from Continuing Operations (in millions)



Retained Earnings and Net Earnings Per Share (in dollars)



Management's Discussion and Analysis

In 1975, the Company's revenues from operations increased by 8 percent, while earnings from operations before income taxes declined by 65.3 percent. More than half of the improvement in revenues came from the Company's broadcasting operations, which during the year accounted for 72 percent of the Company's total revenues. A year earlier, broadcasting accounted for 73.6 percent of total revenues.

All three broadcasting areas—the ABC Television Network, the ABC Owned Television Stations and ABC Radio—contributed to the broadcasting revenue increase. In leisure activities, though revenues rose in all operating divisions except ABC Records, the largest contributors to the revenue increase were ABC Record and Tape Sales, ABC Scenic and Wildlife Attractions and ABC Theatres.

Operating expenses and cost of sales increased by 16.9 percent during 1975. Of this increase, 49.6 percent related to broadcasting, 17.2 percent related to recorded music, 14.1 percent to scenic and wildlife attractions and the remainder to the Company's various other businesses. Factors in the cost increase in broadcasting included, among other things, the higher costs of entertainment, sports and news programming, costs associated with the replacement of television series early in the first quarter of 1975, and costs associated with the change over to the new "Good Morning, America" format. Cost increases in the leisure activities principally reflect higher feature film rental costs in the theatre operations and writedowns and other costs associated with the restructuring of the Company's recorded music operation. With regard to our recorded music operations, returns of records sold were unusually high and exceeded normally provided reserves, additional obsolete and slow moving inventory was written down to fair market value and a more conservative basis of inventory valuation was adopted. In addition, higher costs were incurred with regard to certain artists advances which were determined to have no value and an additional reserve was provided for anticipated claims payable.

The assets of the Wildlife Preserve were written down to estimated realizable value by a charge to operating expenses and cost of sales in the amount of $10.4 million.

In 1974, operating expenses and cost of sales increased by 10.2 percent. This increase was principally attributable to the higher cost of television programming, the costs of initial entry into early morning network programming, the writeoff of certain unsuccessful prime-time series in the fourth quarter, higher film rentals for theatres, and factors related to new operations, acquisitions and internal growth.

Selling, general and administrative costs increased by 12.4 percent in 1975 and 22.2 percent in 1974. 41.3 percent of the increase in 1975 was attributable to the Company's recorded music operations, and included the cost of personnel and corporate services to support higher levels of revenue, the costs of restructuring the domestic record production company and the costs of advertising and promotion by that company to improve market penetration of its products. Contributing factors to the 1974 increase included the cost of personnel and corporate and supporting services for the Company's larger scale of operations in leisure fields, recorded music advertising and promotion, and certain start-up costs which were expensed as a result of new operations.

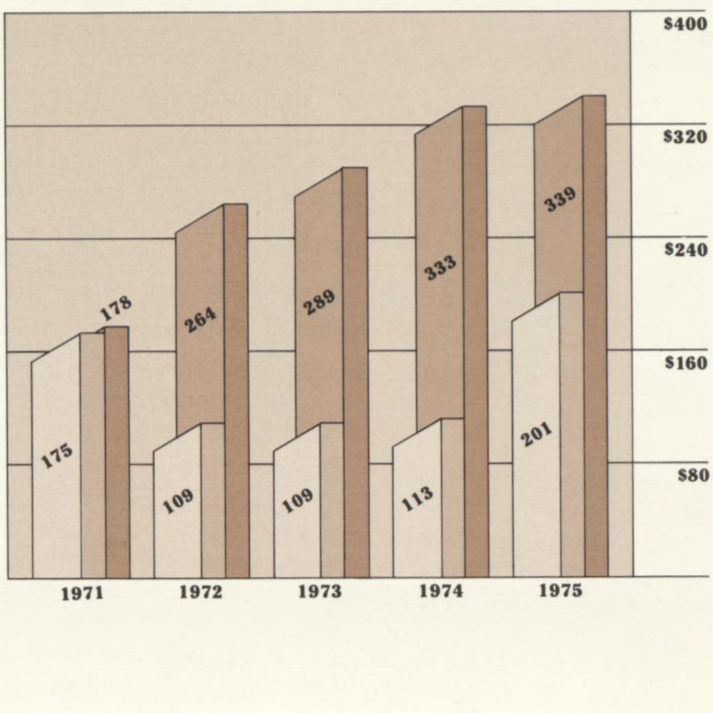
Depreciation and amortization of property and equipment increased by 26.7 percent in 1975. This resulted principally from depreciation on 1974 additions of broadcasting equipment and facilities for a full year.

Interest expense increased by 65.7 percent in 1975, as a result of the Company's sale of $100 million of debentures during the year.

Earnings for 1975 include a gain of $0.8 million ($.05 per share) after federal income tax principally from the sale of investments and other properties. Similar items in 1974 amounted to a gain of $1.9 million ($.11 per share) after federal income taxes.

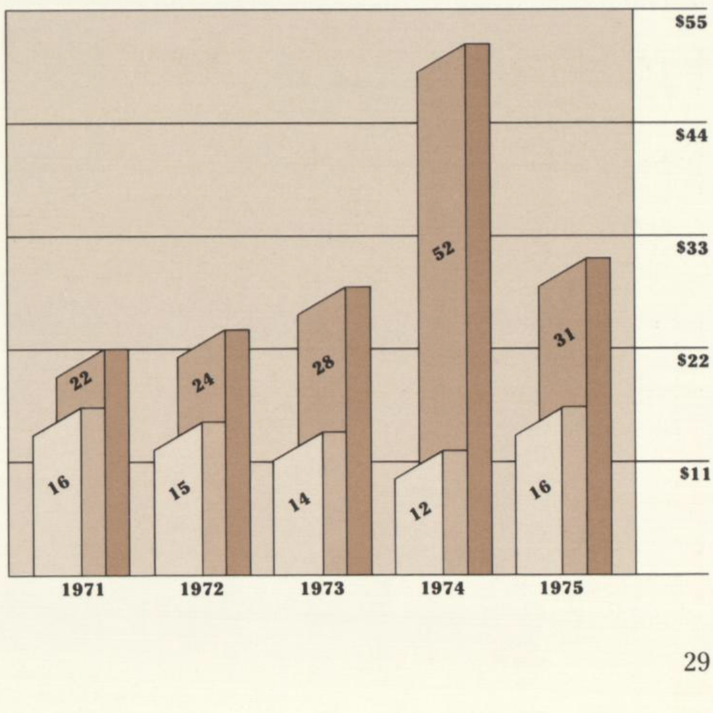
Stockholders' Equity and Long-Term Debt (in millions)

Stockholders' Equity Long-Term Debt



Capital Expenditures and Depreciation (in millions)

Capital Expenditures Depreciation



Lines of Business (Dollars in thousands)

	1975	1974	1973	1972	1971
Revenues from continuing operations:					
Broadcasting	$ 766,648	$725,670	$673,900	$628,901	$ 521,213
Theatres	74,362	66,438	57,546	64,413	61,397
Records	157,426	143,916	106,514	82,501	87,345
Motion Pictures	6,477	4,843	9,024	14,619	13,320
Publishing, Scenic Attractions and Other	59,735	45,173	33,521	29,064	30,162
	$1,064,648	$986,040	$880,505	$819,498	$ 713,437
Earnings from continuing operations before income taxes and extraordinary items:					
Broadcasting	$ 63,655	$ 86,281	$ 80,150	$ 68,689	$ 26,763
Theatres	7,843	10,202	9,082	8,819	7,398
Records	(28,285)	4,195	2,332	911	6,350
Motion Pictures	834	1,000	287	(11,775)	(15,989)
Publishing, Scenic Attractions and Other	(8,325)	1,128	2,580	5,312	3,986
	$ 35,722	$102,806	$ 94,431	$ 71,956	$ 28,508

1975 Quarterly Financial Summary

(Dollars in thousands, except per share amounts)	March 29	June 28	Sept. 27	Jan. 3	Total 1975
Revenues	$ 250,893	$257,346	$234,657	$321,752	$1,064,648
Net earnings (loss)	7,049	13,616	384	(3,953)	17,096
Earnings (loss) per share	.41	.79	.02	(.23)	.99
Dividends per share	.20	.20	.20	.20	.80
Range of common stock market price:					
High	21¼	27	27⅜	23¼	27⅜
Low	12¾	18	17	17⅝	12¾

1974 Quarterly Financial Summary

(Dollars in thousands, except per share amounts)	March 30	June 29	Sept. 28	Dec. 28	Total 1974
Revenues	$ 230,034	$231,757	$225,796	$298,453	$ 986,040
Net earnings	9,993	17,481	11,380	11,091	49,945
Earnings per share	.60	1.03	.68	.61	2.92
Dividends per share	.20	.20	.20	.20	.80
Range of common stock market price:					
High	28⅜	27¼	25¾	17¼	28⅜
Low	21⅝	22¾	14½	11½	11½

Consolidated Summary of Operations

(Dollars in thousands, except per share amounts)

	1975	1974	1973	1972	1971
Revenues (continuing operations)	$1,064,648	$986,040	$880,505	$819,498	$713,437
Expenses (continuing operations):					
Operating expenses and cost of sales	791,800	677,292	614,516	599,405	555,620
Selling, general and administrative	209,229	186,180	152,333	128,193	105,499
Depreciation and amortization of property and equipment	15,764	12,439	12,267	13,610	14,792
Interest	12,133	7,323	6,958	6,334	9,018
	1,028,926	883,234	786,074	747,542	684,929
Earnings from continuing operations before income taxes and extraordinary items	35,722	102,806	94,431	71,956	28,508
Provision for income taxes on continuing operations	18,626	52,861	48,961	38,138	15,157
Earnings from continuing operations	17,096	49,945	45,470	33,818	13,351
Earnings from discontinued operations, net of income taxes	—	—	1,372	1,223	1,589
Earnings before extraordinary items	17,096	49,945	46,842	35,041	14,940
Extraordinary gains (losses), net of Federal income taxes (1)	—	—	412	596	(1,740)
Net earnings	$ 17,096	$ 49,945	$ 47,254	$ 35,637	$ 13,200
Earnings per common and common equivalent share: (2)					
Continuing operations	$ .99	$ 2.92	$ 2.69	$ 1.99	$ .94
Discontinued operations	—	—	.08	.07	.11
Extraordinary gains (losses), net	—	—	.02	.04	(.12)
	$ .99	$ 2.92	$ 2.79	$ 2.10	$ .93
Earnings per common share assuming full dilution: (2)					
Continuing operations	$ .99	$ 2.92	$ 2.69	$ 1.96	$ .87
Discontinued operations	—	—	.08	.07	.09
Extraordinary gains (losses), net	—	—	.02	.04	(.10)
	$ .99	$ 2.92	$ 2.79	$ 2.07	$ .86
Average common and common equivalent shares (In thousands): (2)					
For earnings on common and common equivalent shares	17,235	17,129	16,938	16,967	14,198
For earnings on common shares assuming full dilution	17,235	17,129	16,938	17,465	16,889

(1) Extraordinary gains (losses), net of Federal income taxes:

	1973	1972	1971
Sale of television program syndication subsidiary	$ 2,891	$ —	$ —
Sale of assets and discontinuance of operations	(3,703)	343	(1,339)
Foreign currency revaluation	—	—	(1,900)
Other	(121)	(373)	187
	(933)	(30)	(3,052)
Less—Federal income tax benefit	1,345	626	1,312
Extraordinary gains (losses)	$ 412	$ 596	$ (1,740)

Federal income tax includes additional tax provisions or additional tax benefits where the tax basis of investments or properties sold are different from book basis.

(2) Adjusted for the 2-for-1 stock split in February, 1973

Consolidated Balance Sheets

Assets	January 3, 1976	December 28, 1974
Current Assets:		
Cash	$ 25,019,000	$ 21,964,000
Marketable securities, at cost which approximates market	55,514,000	17,126,000
Receivables, less allowances of $11,303,000 in 1975 and $9,073,000 in 1974	156,035,000	146,130,000
Television program rights, production costs and advances, less amortization (Notes A and H)	162,255,000	141,195,000
Inventory of merchandise and supplies, at the lower of cost (principally on the first-in first-out basis) or market	41,693,000	46,498,000
Prepaid expenses (Note A)	27,690,000	25,529,000
Total current assets	468,206,000	398,442,000
Investments, less reserve of $2,019,000 in 1975 and $2,119,000 in 1974 (Notes A and D)	4,862,000	5,738,000
Property and Equipment, at cost (Notes A and C):		
Land	25,031,000	34,045,000
Buildings	90,134,000	93,744,000
Operating equipment	121,903,000	106,165,000
Leasehold and leasehold improvements	37,907,000	31,470,000
	274,975,000	265,424,000
Less—accumulated depreciation and amortization	108,419,000	96,857,000
Property and equipment—net	166,556,000	168,567,000
Other Assets:		
Intangibles, at cost, less amortization (Notes A and B)	39,146,000	36,994,000
Deferred charges (Note D)	5,417,000	4,459,000
Other (Notes A and B)	13,624,000	7,168,000
Total other assets	58,187,000	48,621,000
Total Assets	$697,811,000	$621,368,000

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	January 3, 1976	December 28, 1974
Current Liabilities:		
Accounts payable and accrued expenses	$125,909,000	$139,950,000
Federal income taxes (Note A)	12,608,000	15,123,000
Long-term debt payable within one year (Note C)	7,033,000	7,370,000
Total current liabilities	145,550,000	162,443,000
Long-Term Liabilities:		
Long-term debt (Note C)	194,418,000	105,705,000
Other (Note A)	12,289,000	15,104,000
Total long-term liabilities	206,707,000	120,809,000
Deferred Income	6,672,000	4,984,000
Total liabilities	358,929,000	288,236,000
Stockholders' Equity (Note D):		
Common stock, par value $1 per share, authorized 50,000,000 shares	17,886,000	17,886,000
Capital in excess of par value	121,000,000	120,890,000
Retained earnings	211,657,000	209,363,000
	350,543,000	348,139,000
Less—common stock held in treasury, at cost	11,661,000	15,007,000
Total stockholders' equity	338,882,000	333,132,000
Commitments and Contingent Liabilities (Note H)		
Total Liabilities and Stockholders' Equity	$697,811,000	$621,368,000

Statements of Consolidated Earnings

American Broadcasting Companies, Inc. and Subsidiaries

	1975 (53 Weeks)	1974 (52 Weeks)
Revenues:		
Broadcasting	$ 766,648,000	$725,670,000
Theatres	74,362,000	66,438,000
Records	157,426,000	143,916,000
Motion Pictures	6,477,000	4,843,000
Publishing, Scenic Attractions and Other	59,735,000	45,173,000
Total revenues	1,064,648,000	986,040,000
Expenses:		
Operating expenses and cost of sales	791,800,000	677,292,000
Selling, general and administrative	209,229,000	186,180,000
Depreciation and amortization of property and equipment (Note A)	15,764,000	12,439,000
Interest	12,133,000	7,323,000
Total expenses	1,028,926,000	883,234,000
Earnings from operations before income taxes	35,722,000	102,806,000
Provision for income taxes (Notes A and E)	18,626,000	52,861,000
Net earnings for the year	$ 17,096,000	$ 49,945,000
Earnings per common and common equivalent share (Note G)	$ .99	$ 2.92

Statements of Consolidated Retained Earnings

	1975	1974
Balance at beginning of year	$ 209,363,000	$172,072,000
Retained earnings of pooled company	—	1,934,000
Net earnings for the year	17,096,000	49,945,000
	226,459,000	223,951,000
Deduct:		
Cost of treasury shares in excess of consideration received upon exercise of stock options	742,000	1,110,000
Cost of treasury shares in excess of fair market value at date of stock bonus awards	283,000	—
Dividends on common stock ($.80 per share)	13,777,000	13,478,000
	14,802,000	14,588,000
Balance at end of year (Note D)	$ 211,657,000	$209,363,000

See accompanying notes to consolidated financial statements.

Statements of Changes in Consolidated Financial Position

American Broadcasting Companies, Inc. and Subsidiaries

	1975	1974
Working capital provided from:		
Operations:		
Net earnings	$ 17,096,000	$ 49,945,000
Add expenses not requiring working capital:		
Depreciation and amortization of property and equipment	15,764,000	12,439,000
Provision for long-term deferred income tax	(3,973,000)	996,000
Writedown of assets of the Wildlife Preserve	10,378,000	—
Other	2,439,000	1,393,000
Working capital provided from operations	41,704,000	64,773,000
Sinking fund debentures	100,000,000	—
Borrowings under revolving credit agreement	30,000,000	—
Disposal of property and equipment	2,488,000	4,658,000
Sale of investments	1,196,000	1,793,000
Increase in long-term debt	—	4,506,000
Exercise of employee stock options	1,078,000	4,427,000
Issuance of stock for pooling of interests	—	2,730,000
Other	555,000	198,000
	177,021,000	83,085,000
Working capital used for:		
Repayment of borrowings under revolving credit agreement	30,000,000	—
Payment of cash dividends	13,777,000	13,478,000
Purchase of property and equipment	31,219,000	51,940,000
Reduction of long-term debt	11,595,000	4,912,000
Acquired intangibles	3,773,000	15,513,000
	90,364,000	85,843,000
Increase (decrease) in working capital	$ 86,657,000	$ (2,758,000)
Changes in Components of Working Capital:		
Cash and marketable securities	$ 41,443,000	$(32,460,000)
Receivables, less allowances	9,905,000	20,042,000
Television program rights, production costs and advances, less amortization	21,060,000	20,247,000
Inventory of merchandise and supplies	(4,805,000)	20,358,000
Prepaid expenses	2,161,000	6,174,000
Property and equipment held for sale	—	(22,500,000)
Accounts payable and accrued expenses	14,041,000	(16,279,000)
Federal income taxes	2,515,000	5,347,000
Long-term debt payable within one year	337,000	(3,687,000)
Increase (decrease) in working capital	$ 86,657,000	$ (2,758,000)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note A: Summary of Significant Accounting Policies:

Consolidation: The consolidated financial statements include the accounts of American Broadcasting Companies, Inc. and its majority-owned subsidiaries. Substantially all investments in other companies which are at least 20% owned are reported at cost plus equity in undistributed earnings. The remaining investments are stated at cost less applicable reserves. All significant intercompany transactions are eliminated in consolidation.

Television Program Rights, Production Costs and Advances: Television program rights, production costs and advances primarily represent amounts paid less amortization based on usage for network programs and rental periods for local station programs. Management estimates that a major portion of the costs will be charged to operations within one year and substantially all of the remaining balance in the subsequent year.

Depreciation: Property and equipment is depreciated principally on a straight-line basis for financial reporting over the estimated useful lives of the various classes of depreciable assets. Substantially all properties are depreciated on an accelerated basis for tax purposes where permitted and the resulting reduction in current taxes is deferred. Leasehold improvements are amortized on a straight-line basis over the period of the lease or over the estimated life of the improvements, whichever is shorter.

Intangibles, less Amortization: Unamortized cost of intangibles represents the excess of cost over underlying net tangible assets of companies acquired. Intangibles amounting to $20,756,000 acquired prior to 1970, which are currently considered to have continuing value, are not being amortized. The remaining intangibles amounting to $18,390,000 at January 3, 1976 ($16,238,000 at December 28, 1974) are being amortized on the straight-line method based on their estimated useful lives not exceeding forty years. Amortization of intangibles amounted to $1,621,000 in 1975 and $510,000 in 1974. An additional $624,000 was charged to earnings in 1974 in connection with the disposal of the assets of a subsidiary.

Income Taxes: Income tax expense differs from amounts currently payable because certain items are reported in the statements of consolidated earnings in periods which differ from those in which they are subject to taxation. Deferred tax items are classified in the accompanying balance sheets as current or non-current according to the classification of the related asset or liability. At January 3, 1976, net estimated future tax benefits of $21,023,000 are classified as prepaid expenses and $2,073,000 as other assets. At December 28, 1974, net estimated future tax benefits of $21,852,000 are classified as prepaid expenses and net deferred taxes payable of $1,900,000 are classified as other long-term liabilities.

Investment tax credits are accounted for on the "flow-through" method.

Pension Plans: The unfunded past service costs of the Company's contributory retirement plans are amortized over a period of thirty years commencing in 1965. It is the Company's policy to fund pension costs accrued.

Note B: Revaluation of Assets of Subsidiary and Acquisitions:

Revaluation of Assets of Subsidiary: In 1975, operating expenses include a charge of $10,378,000 for the writedown of the assets of the Wildlife Preserve at Largo, Maryland to estimated realizable value. The remaining balance is classified as other assets in the accompanying balance sheet of January 3, 1976. The Company has no plans to operate a park at the Largo site in the future.

Acquisitions: On July 1, 1974 the Company purchased "Modern Photography" and "High Fidelity" two special-interest consumer magazines. Effective July 1, 1974, the Company acquired the net assets of Historic Smithville Inns, Incorporated which operates the complex known as "The Historic Towne of Smithville" and, on July 31, 1974, the assets of Famous Music Corporation which is engaged in the phonograph record business. These businesses were acquired for $29,893,000 in cash, notes payable and other amounts payable (including $3,757,000 of contingent costs recorded in 1975). The excess of cost amounting to $18,715,000 over the fair value of net tangible assets acquired was assigned to copyrights, contracts, goodwill and other intangibles and is being amortized on a straight-line basis over periods not exceeding forty years. The results of operations of purchased businesses are included in the 1974 consolidated statement of earnings from the respective dates of purchase.

On November 22, 1974, the Company acquired Word, Incorporated, which is engaged in the production of phonograph records and tapes and the music publishing business, for 302,478 shares of common stock in a transaction accounted for on a pooling of interests basis. The consolidated statements of earnings and retained earnings include the results of operations of Word, Incorporated for the entire year 1974.

Net assets, revenues and net earnings of acquired businesses were not significant in relation to consolidated amounts.

Note C: Debt:

	January 3, 1976	December 28, 1974
Debentures:		
9.35% sinking fund debentures due July 15, 2000 (1)	$100,000,000	$ —
Loans:		
4.55% notes payable semi-annually $1,625,000 to January 1, 1985 and $10,750,000 on July 1, 1985	40,000,000	44,875,000
7% subordinated notes, less unamortized debt discount of $2,463,000 ($2,771,000 at December 28, 1974) with purchase warrants and options expiring January 2, 1982 for the purchase of 833,332 shares of the Company's common stock at a price of $24 per share. Notes are payable $2,940,000 on January 1 annually to 1991, inclusive, and the balance on January 1, 1992	44,597,000	47,229,000
First leasehold secured note payable quarterly $267,000, including interest at 7½% per annum, and $1,261,000 on January 1, 1997	11,446,000	11,645,000
8% promissory note payable $500,000 on August 31 annually to 1983 inclusive	4,000,000	5,000,000
Other mortgages and loans payable at various interest rates and maturity dates	1,408,000	4,326,000
Total debt	201,451,000	113,075,000
Less current installments	7,033,000	7,370,000
Total long-term debt	$194,418,000	$105,705,000

(1) The 9.35% sinking fund debentures are subject to redemption other than through the sinking fund at various prices ranging from 109.350% of the principal amount to July 15, 1976 declining annually thereafter to 100% on July 15, 1995 to maturity. However, prior to July 15, 1985, such redemption may not be made from or in anticipation of moneys borrowed or arising from a sale and leaseback transaction if the interest cost related thereto is less than 9.35% per annum. Mandatory sinking fund redemption of $6,000,000 principal amount plus accrued interest is required in each year from 1985 to 1999 inclusive. In addition, the Company has the noncumulative option to redeem, in each such year, an additional $6,000,000 principal amount through the sinking fund.

As of January 31, 1975, the Company entered into a revolving credit agreement for a maximum credit line of $75,000,000 and borrowed $30,000,000 thereunder. On August 1, 1975 the borrowings were repaid from the proceeds of the 9.35% debentures and the agreement was terminated.

Aggregate maturities of long-term debt for the five years subsequent to January 3, 1976 were as follows:

Year	1976	1977	1978	1979	1980
Amount	$7,033,000	$7,052,000	$7,072,000	$7,094,000	$7,117,000

Note D: Stockholders' Equity:

Common Stock, Capital in Excess of Par Value and Common Stock Held in Treasury:
The changes in common stock, capital in excess of par value and common stock held in treasury were as follows:

	Common Stock		Capital in Excess of Par Value
	Shares	Amount	
Balance at December 29, 1973	17,583,638	$17,584,000	$120,079,000
Pooling of Word, Incorporated (Note B)	302,478	302,000	494,000
Federal income tax benefit from employees' options	—	—	317,000
Balance at December 28, 1974	17,886,116	17,886,000	120,890,000
Federal income tax benefit from employees' options	—	—	104,000
Other	—	—	6,000
Balance at January 3, 1976	17,886,116	$17,886,000	$121,000,000

	Common Stock Held in Treasury	
	Shares	Cost
Balance at December 29, 1973	1,001,549	$22,303,000
Shares distributed to employees upon exercise of stock options	(249,139)	(5,536,000)
Shares distributed under the Key Employees Incentive Compensation Plan	(3,570)	(73,000)
Balance at December 28, 1974 (1)	748,840	16,694,000
Shares distributed to employees upon exercise of stock options	(81,328)	(1,820,000)
Shares distributed under the Key Employees Incentive Compensation Plan	(3,150)	(64,000)
Shares used for restricted stock bonus awards	(67,700)	(1,527,000)
Balance at January 3, 1976 (1)	596,662	$13,283,000

(1) Includes 79,528 shares (cost $1,622,000) at January 3, 1976 and 82,678 shares (cost $1,687,000) at December 28, 1974 classified as an investment held for the purposes of the Key Employees Incentive Compensation Plan.

Common shares reserved at January 3, 1976 and December 28, 1974 are summarized below:

	January 3, 1976	December 28, 1974
Employees' stock options outstanding	575,880	760,534
Employees' stock options available for grant	—	630,250
Employees' restricted stock bonus shares available for awards	282,300	—
Warrants and options	833,332	833,332
Total common shares reserved	1,691,512	2,224,116

Restricted Stock Bonus Plan: On May 20, 1975, the stockholders approved the 1975 Restricted Stock Bonus Plan which provides that not more than 350,000 shares of common stock of the Company may be awarded to officers and key employees. With certain exceptions, awarded shares are subject to a "Restricted Period" of one to three years of continuous employment by recipients to establish unrestricted ownership. The potential cost of shares awarded under the Plan is being charged to earnings over a three-year period commencing from the date of award and based on market value at that date. In 1975, compensation expense amounting to $173,000 was charged to earnings. At January 3, 1976, the unamortized balance in the amount of $1,071,000 is classified as a deferred charge for unearned compensation. There were 282,300 shares available for future awards at January 3, 1976.

Key Employees Stock Option Plans: Approval of the Restricted Stock Bonus Plan provided for the termination of the 1973 Key Employees Stock Option Plan. The termination did not affect current stock options outstanding.

Under the 1973 Plan, options to purchase shares of common stock were granted to officers and key employees at a price not less than 100% of the fair market value at the dates of grant. Qualified options granted may be exercised in part or in entirety one year after the date of grant, as provided by the terms of each option, and expire in five years.

The following table reflects changes in options outstanding:	Shares	Option Prices Per Share
Outstanding December 29, 1973	909,093	$10.82 to 39.94
Granted	178,750	14.00 to 25.25
Exercised	(249,139)	10.82 to 20.17
Expired or cancelled	(78,170)	17.58 to 39.94
Outstanding December 28, 1974	760,534	10.82 to 39.94
Substituted options of company acquired in 1974	4,100	29.27
Exercised	(81,328)	10.82 to 25.00
Expired or cancelled	(107,426)	16.69 to 39.63
Outstanding January 3, 1976	575,880	$14.00 to 39.94

Substantially all of the options outstanding were exercisable at January 3, 1976.

When options are exercised and shares are issued, the par value of the shares is credited to common stock and the remainder of the proceeds is credited to capital in excess of par value. When exercised options are satisfied by delivery of treasury shares, the difference between the proceeds and the cost of the treasury shares is charged or credited to retained earnings or to capital in excess of par value as appropriate. No amounts have been reflected as revenues or expenses in connection with the granting or exercising of options.

Preferred Stock: 2,000,000 shares of preferred stock, par value $1, are authorized but none are outstanding.

Restrictions on Retained Earnings: Under various agreements pertaining to long-term debt there are certain restrictions regarding the payment of dividends (other than in shares of capital stock of the Company) or the purchase or redemption of capital stock of the Company. Under the most restrictive agreement, approximately $165,359,000 was not so restricted at January 3, 1976.

Note E: Provision for Income Taxes: Provision for income taxes consists of the following:

	1975	1974
Federal income tax	$17,467,000	$47,327,000
Investment tax credit	2,100,000	1,200,000
	15,367,000	46,127,000
Less—deferred Federal tax benefit—net	3,144,000	2,750,000
	12,223,000	43,377,000
Foreign taxes	210,000	293,000
State and local taxes	6,193,000	9,191,000
Total provision	$18,626,000	$52,861,000

Reconciliation of U.S. income tax rate and effective tax rate:	1975	1974
Percent of pre-tax income:		
Statutory U.S. income tax rate	48.0	48.0
Investment tax credit	(5.9)	(1.2)
State and local taxes, net of Federal tax benefits	9.0	4.6
Miscellaneous items	1.0	—
	52.1%	51.4%

Deferred taxes are composed of the following:	(Benefit) Expense	
	1975	1974
Accelerated depreciation	$1,081,000	$ 770,000
Program production costs	802,000	(3,369,000)
Prior year's provision for loss on disposal of businesses	—	894,000
Writedown of assets of the Wildlife Preserve	(4,782,000)	—
Other	(245,000)	(1,045,000)
	$(3,144,000)	$(2,750,000)

The Company and its subsidiaries file consolidated Federal income tax returns. The returns of the Company have been examined through fiscal year 1969 and, in the opinion of management, adequate provision for taxes has been made for all open years.

Note F: Employee Benefits: The Company and certain of its subsidiaries have contributory retirement plans covering substantially all of its employees not covered by union plans.

The acturially computed value of vested benefits exceeded the total of retirement funds by approximately $5,044,000, at January 3, 1976. Annual costs, which include amounts for current service and amortization of unfunded past service costs, amounted to $3,617,000 in 1975 and $2,919,000 in 1974. Implementation of the provisions of the 1974 Pension Reform Act will increase pension expense in future periods by approximately $450,000 and unfunded vested benefits by approximately $3,100,000.

A stock investment plan is available to employees for the purchase of the Company's common stock through payroll deductions. The Company contributes an amount equal to 40% of employees' contributions, up to a maximum of $1,000 for each employee per annum. The cost of the plan was $582,000 in 1975 and $526,000 in 1974.

Under the Key Employees Incentive Compensation Plan, the maximum amount which may be set aside for incentive awards in any year is 7% (4% in 1974) of the excess of earnings from operations before Federal income taxes over $50,000,000 ($9,000,000 in 1974). No provision was made for incentive awards in 1975. The amount charged to expense was $3,550,000 in 1974.

Note G: Per Share Earnings: Earnings per common and common equivalent share has been computed based upon the weighted average number of shares outstanding during each year. Adjustment has been made to assume the exercise of dilutive outstanding employee stock options and outstanding common stock purchase warrants and options, net of shares which could have been purchased from the proceeds based on the average market price. Shares issued for the acquisition of Word, Incorporated are assumed to be outstanding from the beginning of 1974. The approximate number of shares used in the computations were 17,235,000 in 1975 and 17,129,000 in 1974.

The computation of earnings per common share assuming full dilution results in less than 3% dilution in both years.

Note H: Commitments and Contingent Liabilities: The Company's minimum rental commitments under noncancellable leases for real property and equipment at January 3, 1976 were as follows:

	Rental Commitments			
	Real Estate	Equipment	Income from Subleases	Net Rental Commitments
1976	$ 8,369,000	$ 1,259,000	$ 431,000	$ 9,197,000
1977	8,166,000	314,000	386,000	8,094,000
1978	7,545,000	63,000	386,000	7,222,000
1979	6,603,000	23,000	371,000	6,255,000
1980	5,975,000	5,000	297,000	5,683,000
1981 to 1985	24,586,000	—	1,275,000	23,311,000
1986 to 1990	16,467,000	—	492,000	15,975,000
1991 to 1995	9,360,000	—	84,000	9,276,000
After 1995	27,419,000	—	—	27,419,000

Total rent expense under cancellable and noncancellable leases for the two years ended January 3, 1976 was as follows:

	1975	1974
Rent expense	$18,570,000	$16,392,000
Contingent rent expense	969,000	658,000
Rentals from subleases	(828,000)	(891,000)
	$18,711,000	$16,159,000

The present value of all financing leases at January 3, 1976 and at December 28, 1974 is immaterial in relation to long-term capitalization. The impact upon net income, if noncapitalized financing leases were capitalized, is also immaterial for the years 1975 and 1974.

Under contracts covering rentals of feature films for future telecast, the Company is obligated for payments aggregating approximately $123,000,000 during the next five years as follows:

1976	1977	1978	1979	1980
$45,000,000	$36,000,000	$19,000,000	$16,000,000	$7,000,000

There are contingent liabilities under pending litigation including anti-trust suits. However, in the opinion of counsel for the Company in these cases, the Company is not exposed to any material liability.

Accountants' Report

The Board of Directors and Stockholders
American Broadcasting Companies, Inc.:

We have examined the consolidated balance sheets of American Broadcasting Companies, Inc. and subsidiaries as of January 3, 1976 and December 28, 1974 and the related consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of American Broadcasting Companies, Inc. and subsidiaries at January 3, 1976 and December 28, 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
345 Park Avenue, New York, New York 10022
March 1, 1976

People at ABC

In 1975, these changes occurred in the executive and operating management of ABC:

I. Martin Pompadur was named Vice President and Assistant to the President of ABC. He had been President of ABC Leisure Group I.

Michael P. Mallardi was named Vice President, Chief Financial Officer and Treasurer. He had been President of ABC Record and Tape Sales. He succeeded Robert D. Krestel, who resigned as Vice President, Finance, Treasurer and a member of the Board of Directors.

Warren D. Schaub was named Vice President, Finance, and Comptroller. He had been Vice President and Comptroller.

Fred Silverman was named President of ABC Entertainment. He had been Vice President for Programs of the CBS Television Network.

Jerold H. Rubinstein was named Chairman of ABC Records, Inc.

Herbert J. Mendelsohn was named President of ABC Record and Tape Sales, succeeding Mr. Mallardi.

Walter A. Schwartz resigned as President of ABC Leisure Group II and as a member of the Board of Directors.

In 1976, Ray C. Adam, Chairman, President and Chief Executive Officer of NL Industries, Inc., was elected to the Board of Directors.

John T. Healy was named Vice President, Corporate Planning.

Ronald E. Sappenfield was named Vice President, Corporate Development.

During the year, ABC took several steps to improve its development of its human resources, with special emphasis on minority group members and women. The educational assistance program was broadened to aid employees who wish to study in fields unrelated to their current position. Management development programs were implemented for middle managers and first-line supervisors. Workshops were established to strengthen the interpersonal skills of supervisory employees, especially in their relationship with women and minorities.

Preventive checkups for heart attacks and breast cancer were offered to most employees, with widespread participation. In accordance with the new Federal pension legislation (ERISA), the Company's staff pension plan was revised to provide earlier eligibility and improved vesting provisions. In addition, the benefits available under the Company's medical expense insurance plan were increased.

At the end of 1975, ABC employed approximately 9000 permanent, full-time employees. Of these, approximately 33.2 percent were women and 14 percent members of minority groups. In the officials, managers and professionals categories, approximately 21.3 percent of the positions were filled by women and 8 percent by minorities. These figures are not precisely comparable to those published in previous years because they exclude large numbers of temporary, part-time and seasonal employees, especially in the Company's theatres and scenic attractions. The total number also reflects sharp curbs on hiring imposed in 1975 and the resulting reductions in staff through attrition.

Board of Directors:

Ray C. Adam: Chairman of the Board, President and Chief Executive Officer of NL Industries, Inc.
Alger B. Chapman: Member of the Board of Squibb Corporation
Dr. Mamie Phipps Clark: Executive Director of Northside Center for Child Development, Inc.
John A. Coleman: Senior Partner of Adler, Coleman & Co.
Donald C. Cook: Chairman of the Board of American Electric Power Company, Inc. (Retired)
Everett H. Erlick: Senior Vice President and General Counsel of the Corporation
Leonard H. Goldenson: Chairman of the Board and Chief Executive Officer of the Corporation
Jack Hausman: Vice-Chairman of the Board and Chairman of Finance Committee of Belding Heminway Company, Inc.
Leon Hess: Chairman of the Board and Chief Executive Officer of Amerada Hess Corporation
George P. Jenkins: Chairman of the Board of Metropolitan Life Insurance Company
Thomas M. Macioce: President and Chief Executive Officer of Allied Stores Corporation
Frederick S. Pierce: President, ABC Television
I. Martin Pompadur: Vice President of the Corporation and Assistant to the President of the Corporation
Elton H. Rule: President and Chief Operating Officer of the Corporation
Martin J. Schwab: Chairman of the Board of United Merchants and Manufacturers, Inc.
Simon B. Siegel: Retired—formerly Executive Vice President of the Corporation

Executive Committee: John A. Coleman, Chairman; Alger B. Chapman, Donald C. Cook, Leonard H. Goldenson, Jack Hausman, George P. Jenkins, Elton H. Rule, Simon B. Siegel.

Audit Committee: Donald C. Cook, Chairman; George P. Jenkins, Thomas M. Macioce, Simon B. Siegel.

Officers:

Leonard H. Goldenson: Chairman of the Board and Chief Executive Officer
Elton H. Rule: President and Chief Operating Officer
Everett H. Erlick: Senior Vice President and General Counsel
James L. Abernathy: Vice President
Peter Cusack: Vice President
Richard L. Freund: Vice President
Jerome B. Golden: Vice President and Secretary
Robert T. Goldman: Vice President
John T. Healy: Vice President
Elmer W. Lower: Vice President
Michael P. Mallardi: Vice President, Chief Financial Officer and Treasurer
Ellis O. Moore: Vice President
I. Martin Pompadur: Vice President and Assistant to the President
Ronald E. Sappenfield: Vice President
Warren D. Schaub: Vice President, Finance, and Comptroller
Alfred R. Schneider: Vice President
Ann Maynard Gray: Assistant Treasurer
William E. Pierson: Assistant Comptroller
Donald R. Whalen: Assistant Comptroller
John T. Dealy: Assistant Secretary
Franklin Feinstein: Assistant Secretary

Annual Meeting: The 1976 annual meeting of stockholders will be held on Tuesday, May 18, 1976, at 7 West 66th Street, New York City, beginning at 11:00 A.M.

Form 10-K Annual Report: A copy of the Company's form 10-K annual report to the Securities and Exchange Commission may be obtained by writing to: American Broadcasting Companies, Inc. Attention: Investor Relations Department, 1330 Avenue of the Americas, New York, New York 10019

Executive Offices: 1330 Avenue of the Americas, New York, New York 10019

Independent Auditors: Peat, Marwick, Mitchell & Co., 345 Park Avenue, New York, New York 10022

Transfer Agent: Bankers Trust Company, 485 Lexington Avenue, New York, New York 10017

Registrar: The Bank of New York, 48 Wall Street, New York, New York 10015

Trustee for 9.35% Sinking Fund Debentures: Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015

Stock Exchange Listing: American Broadcasting Companies, Inc. common stock is listed and traded on the New York Stock Exchange under the symbol ABC.

Nature of Business: American Broadcasting Companies, Inc. and its subsidiary companies are engaged in broadcasting, theatre exhibition of motion pictures, the production and distribution of recorded music, publishing, and the operation of scenic attractions.

Ratings source: NTI/SIA preliminary estimates, average audience household estimates, prime-time, eight weeks ending March 7, 1976. Data subject to qualifications which are available on request.